Report of Coalition Members and Senators

Senator Simon Birmingham

Mr George Christensen MP

Senator Mathias Cormann

Mrs Joanna Gash MP

Hon Tony Smith MP

1. Introduction

Labor have denied Australians a proper voice throughout the carbon tax debate. They were denied a say on the issue at last year's election, thanks to the Prime Minister's misleading of the Australian people, they have refused to take the matter back to the people and Labor are attempting to rush this legislation through the parliament without any of the proper scrutiny usually provided to such a sweeping legislative reform.

The Coalition is determined to let the Australian public have their say on Labor's carbon tax. Most importantly, we will give Australians a choice at the next election.

Through this inquiry, despite its undue haste and stifling by the Labor-Greens-Independent majority, we have sought to give as much voice to all Australians as is possible.

In this report of Coalition Members and Senators we have included the comments of hundreds of Australians – not just those few who appeared before the committee in its select few days of hearings in south-eastern Australia, or those professional organisations who made detailed submissions, but also many comments from the more than 4,500 people who made submissions to this inquiry, which the Labor-Greens-Independent majority refused to have published.

To the thousands of people who feel like Noel Bowman, who stated in his submission that 'I suppose no one will ever read this submission and in consequence I am wasting my time'[1], the Coalition members say we have tried to give you a voice. We could not quote or reference everybody, but in contrast to Labor's determination to shut people out of this process we were even more determined to ensure that as many voices as possible from across Australia were heard.

The carbon tax legislation is bad legislation. It fails the core test of being the most effective and efficient way of reducing Australia's emissions into the future, without causing harm to our economy:

> The legislative package is not the most effective and efficient means of reducing Australia's emissions. It has inherent inefficiencies and will lead to unintended consequences. The carbon pricing mechanism runs counter to the international

[1] Mr Noel Bowman for the extended Bowman Family, unaccepted submission, received 18 September 2011, 2.37PM.

> evidence in favour of incentive schemes and against penalty schemes. We continue to hear commentary about permits and abatement credits. Permits are emissions rights and abatement credits are certified reductions in emissions. They are two very different beasts and are reflective of two very different types of market structures. The proposed scheme will penalise Australian manufacturers whilst paying incentives to their international competitors. Electricity prices could rise more than 6c per kilowatt hour relative to current prices without changing the carbon intensity of the generation mix.[2]

It subjects Australia's economy, industry, businesses, service providers, charities, families and households to an experiment:

> Australian businesses do not operate in the confines of a model; they operate in the real world. They are not in the economic laboratory.[3]

It is based on false claims about Australia's contribution to what is truly a global issue that must be tackled in a coordinated global way:

> We are a small producer of greenhouse gases and our actions alone will be quite negligible in reducing emissions generally. In terms of our income levels, Australia as a consumer of greenhouse gases is about average. We are relatively high as a producer of these gases, largely because we export aluminium and other metals, whereas other developed countries of our standard of living import them.[4]

It outsources our responsibilities to the rest of the world, at great cost to jobs, competitiveness and our cost of living:

> The issue that is a concern for my board and for our businesses is whether this tax will actually assist in reducing carbon emissions and whether this tax will actually achieve what it is trying to achieve. That is really the questioning that I receive quite regularly from board members and from businesses in general. I do not believe anyone would dispute that the climate changes. That is not

[2] Mr Stuart Allinson, Director, Exigency Management Pty Ltd, Committee Hansard, 27 September 2011, p. 13.

[3] Mr Greg Evans, Australian Chamber of Commerce and Industry, *Proof Committee Hansard*, Canberra, 26 September 2011, p. 36.

[4] Dr Alan Moran, Director Deregulation Unit, Institute of Public Affairs, Committee Hansard, 27 September 2011, p. 57.

> the debate. The debate is about whether this tax is going to achieve a reduction in carbon emissions.[5]

In this report of the Coalition members who participated in the inquiry into the carbon tax legislation we consider each of the following issues:

- the breach of trust from the Gillard Labor Government and the complicity of the trade union movement in that broken promise;
- the extent to which this policy is putting Australia out of step with the rest of the world and the false assumptions on which it has been modelled;
- the ineffectiveness of this policy in reducing emissions and the impact of Australia outsourcing action through the use of international permits;
- the pain the policy will cause to households through increased cost of living pressures;
- the impact on small businesses of rising input costs and their ability to recoup those costs;
- different communities that will feel particular pressure, with a focus on local government, regional Australia and the community welfare sector;
- some of the key industries that will be compromised by the carbon tax, especially those that are trade exposed;
- the crippling impact it will have on Australia's international economic competitiveness;
- that far more than the claimed 500 companies will pay the carbon tax; and
- the farcical way in which this inquiry was conducted.

For all of these reasons and numerous others that are touched on in the report, the Coalition Members and Senators participating in the inquiry into Labor's carbon tax bills make the following recommendation:

Recommendation

That these Bills not be passed and that Australia pursue a less harmful, more effective means to meet our emissions reductions targets.

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[5] Ms Mary Carroll, Capricorn Enterprise, *Proof Committee Hansard*, Sydney, 28 September 2011, p. 39.

We further suggest that calls for a true analysis of the impact of Labor's policy and other policy alternatives be accepted:

> We suggest that the committee commission systematic and transparent modelling of alternative policy scenarios by the Productivity Commission and that this modelling should address such questions as these. What are the costs to Australia of a unilateral carbon pricing scheme operating with patchy and uncoordinated international abatement action until 2020 rather than credible and comprehensive action on a global scale? What is the risk of a unilateral tax on Australian resource exports encouraging our coal and other resource competitors to stay out of any global agreement? What are the risks on taxpayers of implementing the proposed scheme before the global outlook is clear?
>
> Is the proposed scheme the most efficient way of meeting Australia's Copenhagen Accord pledge given the structure of Australia's economy and the nature of the export profile? Is imposing a unilateral tax on our main source of comparative advantage the most efficient way of meeting the environmental goal of the clean energy future legislation? What would be the implications of alternate carbon price trajectories? What would be the implications if a large proportion of international abatement were not available or if international abatement proved to be more costly than expected? We think it would be useful if the committee referred those matters for study by the Productivity Commission.[6]

[6] Mr John Harry Pegler, Chairman, Australian Coal Association, Committee Hansard, 27 September 2011, pp. 64-65.

2. Breach of trust

Labor's Broken Promise

A strong and recurrent theme in submissions from the public was the fundamental breach of trust that this carbon tax embodies between Labor and the Australian people. During the 2011 election the Prime Minister was absolutely clear in her promises opposing a carbon tax. The Prime Minister stated:

> *'There will be no carbon tax under a Government I lead.'*[7]

> *'I rule out a carbon tax'*[8]

The Treasurer, Wayne Swan, was equally clear in his promise to the Australian people that Labor would not introduce a carbon tax stating:

> *'We have made our position very clear. We have ruled it out.'*[9]

> *'Well, certainly what we rejected is this hysterical allegation somehow that we are moving towards a carbon tax… we certainly reject that.'*[10]

The Prime Minister and Treasurer were so clear in their public opposition to a carbon tax in the days before the election because they know how deeply unpopular a carbon tax is and that being honest with the Australian people would have cost them seats and Government.

What makes this betrayal of trust even more galling is the Prime Minister's previous statements on the importance of honouring election promises.

> *"I think when you go to an election and you give a promise to the Australian people, you should do everything in your power to honour that promise. We are determined to do that. We gave our word to the Australian people in the election and this is a Government that prides itself on delivering election promises. We want Australians to be able to say well, they've said this and they did this."*[11]

> *".. if the reputation of this Government is that we are stubborn in the delivery of our election promises , then we are stubborn in keeping our*

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[7] Channel Ten News, 16 August 2010.

[8] PM's carbon price promise, The Australian, 20 August 2010.

[9] 7:30 Report, ABC, 12 August 2010.

[10] Meet the Press, Channel Ten, 15 August 2010.

[11] Interview with Jon Faine, 20 March 2009.

> *word to the Australian people. Then I'll take that. I'll take that as a badge of honour."*[12]
>
> *"We're always there delivering our election promises. That's important to us. And we're always there acting in the national interest."*[13]
>
> *" … we will deliver in full the election promise we took to the Australian people."*[14]

Unsurprisingly the Australian people feel betrayed by the Prime Minister and Treasurer and this was clear in submissions received by the Committee. These strong views included:

> Julia Gillard stated there would be NO CARBON TAX under her Government. How can she and Bob Brown ever be trusted again.[15]
>
> … Gillard promised the Australian people that there will be no carbon tax under the government I lead. History now proves this was a blatant lie by Gillard. Federal Labor is treating the Australian people like a joke; they treat us like where unintelligent fools and we have had enough.[16]
>
> We were promised "No carbon tax" and now are being forced to accept one.
>
> This is a tax that is being introduced against the wishes of the people of Australia. It is a tax that will hurt all Australians.[17]
>
> Before the election a key promise from Ms Gillard was that there would be no carbon tax …I am ashamed to be an Australian right now, I am embarrassed that our system has let the people down, and that elected officials are intentionally going against the will of the people.[18]
>
> … the imposition of this tax is a clear breach of an election promise by a government that did not even win sufficient seats to govern in its own right.[19]

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[12] Interview with Jon Faine, 20 March 2009.

[13] *Lateline*, ABC, 16June 2009.

[14] Press Conference, 20 March 2009.

[15] Mr and Mrs John and Barbara Rodham, unaccepted submission, received 20 September 2011, 7.42AM.

[16] Mr Bradley Ezzy, unaccepted submission, received 18 September 2011, 2.10PM.

[17] Mr Frank McKee, unaccepted submission, received 17 September 2011, 12.45PM.

[18] Mr Brad Kelly, unaccepted submission, received 17 September 2011, 12.12PM.

[19] Ms Jenny Dolzadelli, unaccepted submission, received 20 September 2011, 7.45PM.

> I am totally against the carbon tax and especially the deceitful way it has been introduced. Julia Gillard promised at the last election that it wouldn't happen.[20]
>
> We were promised a people's/community discussion, we were promised NO tax…[21]
>
> It really infuriates me that it is being introduced through parliament … even though Labor policy prior to the election was totally different and Prime Minister GILLARD explicitly stated a week prior to the election that there would not be a Carbon Tax until a consensus was gained through a Citizens Assembly (at the very least).
>
> It is this dishonesty more than anything than anything that makes me so annoyed that it is being introduced. … I believe that had she not promised that there would not be a carbon tax in the election campaign she would not have gained a majority.[22]

It is noteworthy that a number of these submissions and others recalled another of the Prime Minister's election commitments, namely to seek a 'consensus' on how best to tackle climate change through the proposed 'Citizens Assembly'. This commitment was also abandoned shortly after the 2010 election.

Many Australians feel that Labor's duplicitous behaviour before the election means they have no mandate to introduce this tax and demands an election be held before this legislation is voted on:

> I consider that the Gillard Government has NO MANDATE to introduce this tax after specifically and unambiguously going to an election with a clear commitment NOT to introduce a carbon tax.[23]
>
> Julia Gillard and her government promised that they would not bring one in and it is that 'Promise' to the Australian people that got them back into power. The 'Promise' that, for some reason, means absolutely nothing to them now. We should have a choice in this...why is she & her government not allowing us our right to vote on something that is going to have such a major impact on every single Australian's life?[24]

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[20] Ms Annette Donohue, unaccepted submission, received 18 September 2011, 2.11PM.

[21] Mr Paul Howell, unaccepted submission, received 18 September 2011, 2.01PM.

[22] Mr Liam O'Connor, unaccepted submission, received 18 September 2011, 2.00PM.

[23] Ms Christine Davitt, unaccepted submission, received 17 September 2011, 12.16PM.

[24] Ms Shirley Dawson, unaccepted submission, received 17 September 2011, 12.06PM.

The political impact this great big lie has already had on our system is sad. We've got a government doing all it can to avoid scrutiny and silence not only the opposition but the Australian people.[25]

The Prime Minister clearly stated just before the last election that "There will be no carbon tax under a government I lead". The Treasurer made similar declarations. Therefore the current government HAS a mandate NOT to introduce a carbon tax.[26]

Julia Gillard clearly stated during her election campaign that the Labor Party would not introduce a carbon price/tax. I hold her to that statement and demand that she withdraws the proposed legislation immediately.[27]

The minority Labour Government currently in power within this country was at no time given a mandate by the Australian voting public to introduce this tax and the current Prime Minister is on record as stating that a carbon tax will not be introduced. This is in direct contradiction with stated policies and denies the Australian Public the opportunity to decide.[28]

Prior to the election the now Prime Minister, Julia Gillard declared categorically "There will be no carbon tax under any Government I lead". She was elected by the Australian people (just,… with the help of the Greens) in good faith accordingly and therefore the Govt does not have a mandate to now break that promise AND introduce one.[29]

The introduction of this betrays … commitments given by Labor in the last federal election that there would be no 'Carbon Tax' and that legislation governing carbon dioxide emissions would only be determined when community consensus was reached.[30]

The Government was elected on a no Carbon Tax platform. This is a democracy and the people voted based on a position the Prime Minister is now ignoring.[31]

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[25] Mr Scott O'Connell, unaccepted submission, received 17 September 2011, 12.50AM.

[26] Ms Michelle Burrows, unaccepted submission, received 20 September 2011, 6.25PM.

[27] Mr Olav Banneck, unaccepted submission, received 19 September 2011, 11.29PM.

[28] Mr Ronald Atwell, unaccepted submission, received 18 September 2011, 8.58PM.

[29] Mr Chris Thomas, unaccepted submission, received 18 September 2011, 2.13PM.

[30] Mr Brian Fergusson, unaccepted submission, received 18 September 2011, 2.05PM.

[31] Mr Vincent Tesoriero, unaccepted submission, received 17 September 2011, 2.48PM.

> It is against the spirit of Australian democracy. I say this because the Government has no mandate from the people to introduce such a tax. Its introduction was not part of the Australian Labor Party's platform at the 2010 election. I believe an Act with such widespread consequences and conferring such powers should not be enacted without the prior endorsement of the Australian voters.[32]

Many Australians outlined how they were personally conned by the Prime Minister’s words before the election and feel angry at the contempt with which the Prime Minister holds their trust in her. Having given her party their vote they feel betrayed that she is doing the opposite of what she promised before they did so.

> … my wife and I … voted Labor at the last election on the platform that there would be no carbon tax. Gillard and Labor have deceived us and the Australian people and it's not right. We have lost total confidence in the current government to run this country as a democracy.[33]

> The Prime Minister Ms Gillard did say “That there would be no carbon tax under the Government that I (she) lead(s).” It was on this presumption that Ms Gillard was telling the truth at the time, that I voted for her Government. As a T.P.I. on a pension I know I couldn’t afford to be burdened with another Tax which would reduce my living standards any further.[34]

> The Labor Party got into power on false promises – No carbon tax. I voted for the Labor Party for that reason and I am angered at being lied to and not being able to rescind my vote. My frustration deepens as there isn’t a framework to protect us or prevent the deceit (if a business was this deceitful we could hold it to account).[35]

It is clear that there is widespread anger in the community with this tax which is compounded by the Prime Minister’s solemn promise that there would be no carbon tax and her willingness to abandon her commitment to the Australian people for political expediency.

[32] Mr Brian Pratt, unaccepted submission, received 18 September 2011, 1.51PM.

[33] Mr Alan Herbert, unaccepted submission, received 18 September 2011, 1.49PM.

[34] Mr Kenneth Taylor, unaccepted submission, received 18 September 2011, 1.46PM.

[35] Mr Harold Bull, unaccepted submission, received 17 September 2011, 1.35PM.

Australians understandably feel betrayed by a Prime Minister who preaches honesty in politics and the importance of keeping promises, but has proven her words are of no consequence and integrity non-existent.

Unions complicit

While the Prime Minister has betrayed the Australian people, Labor's friends in the union movement are equally culpable in betraying Australian workers. Unions claim to represent the views and interests of their members, yet in testimony given to the Committee, the Unions would have you believe they do not know what their members think about the carbon tax and that Union leaders are so disconnected from their members that complaints are never heard at the top:

> Mrs Gash: I come from the Illawarra. Can you tell me how many complaints you have had from your members at BlueScope? Tell me how many complaints.
>
> Mr McCauley: About?
>
> Mrs GASH: On what issue? What issue are we talking about? A carbon tax.
>
> …
>
> Mr McCauley: I am not from the New South Wales branch. I do not know who from the Illawarra has talked to the New South Wales branch about the carbon tax. I do not have that information before me.
>
> Mrs GASH: You do not speak to the rest of the branches in Australia?
>
> Mr McCauley: Of course I do. Members from the Illawarra have not complained to me and that is the only information I can provide to you today.
>
> CHAIR: From the ACTU perspective and overall, have you done any sort of quantified research about membership concerns?
>
> Mr McCauley: Well, our members are trade unions.
>
> CHAIR: Yes, but through the union movement, have issues of concern been raised?
>
> Mr McCauley: Not so they have filtered up to me, no.[36]

[36] Mrs Joanna Gash, Member for Gilmore; Ms Anna Burke, Member for Chisholm; Mr Timothy McCauley, National Project Officer, Australian Manufacturing Workers Union, Committee Hansard, 27 September 2011, p. 26.

Indeed, the people who appeared before this inquiry claiming to speak for Union members cannot recall the last time they even visited a union work site:

> Mr McCauley: We also have a helpdesk where we have people calling in and we log those calls. We also have correspondence coming in to various branches of the union.
>
> Mr TONY SMITH: How does that filter up to you?
>
> Mr McCauley: It does not necessarily filter up to me. I am from the national office. But each branch —
>
> Mr TONY SMITH: I know we are short of time. One last question. You mention that you are out there talking to members all the time. Could you just, for the benefit of the committee, each tell us the last time you were at a manufacturing plant.
>
> Mr McCauley: Personally?
>
> Mr TONY SMITH: Yes.
>
> Mr McCauley: I am a lawyer; I am not an organiser. We are an organising union. I am not the organiser for the union.
>
> Mr TONY SMITH: Okay. And you, Mr Fetter?
>
> Mr Fetter: I am in the same position.
>
> Mr TONY SMITH: Thanks. That is okay. We are short on time.[37]

These Union officials do however readily acknowledge – but don't seem to be at all concerned by the fact – that the carbon tax will see their members with lower pay in the future, increase their cost of living and leave them financially worse off:

> Senator BIRMINGHAM: Do you accept that the Treasury modelling is accurate when it predicts that national income, real income per person, will be below that expected without carbon pricing?
>
> Mr Fetter: Yes. The whole point of the scheme is to reduce our emissions, thereby reducing the GDP and the incomes from all the factors of production that would otherwise have taken place.
>
> Senator BIRMINGHAM: The whole point of the scheme is to reduce national GDP?

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[37] Hon Tony Smith MP, Member for Casey; Mr Timothy McCauley, National Project Officer, Australian Manufacturing Workers Union; Mr Joel Fetter, Director Policy and Legal, Australian Council of Trade Unions, Committee Hansard, 27 September 2011, p. 31.

> Mr Fetter: We are clearly going to have to use more expensive sources of energy to achieve the same production. But the modelling is—
>
> Senator BIRMINGHAM: So the union movement is comfortable with lower income per person in the future?
>
> Mr Fetter: We will clearly have a lower income than the income we could generate if we continued to burn dirty coal and we continued with business as usual. But we would also have very high emissions. At some point in time, the planet will catch up with us and then you would see what happens to GDP.
>
> Senator BIRMINGHAM: When is that point in time?
>
> Mr Fetter: Scientists tell us that by 2100 we may be facing two degrees of warming. The impact on GDP we saw with the floods in Queensland was very significant and that is in 2011. So by 2100 one would expect significant impacts on GDP if nothing is done about climate change.
>
> Senator BIRMINGHAM: So you acknowledge the Treasury modelling only goes out as far as 2050. At that point, real income is still trending down compared with a no carbon price scenario.
>
> Mr Fetter: Yes, but we would have a higher GDP if we allowed child labour. There are many things that we could do to increase our GDP, but we do not do them because they are not good ideas.
>
> Senator BIRMINGHAM: This is also talking about the real wages of your members.
>
> Mr Fetter: You are comparing this with a hypothetical scenario: what would the world look like down the track if we did not have action on climate change?
>
> Senator BIRMINGHAM: I am talking about the modelling that the government that you so enthusiastically support relies upon.[38]

Sadly Union bosses seem more concerned with the jobs of Labor Parliamentarians, and quite likely their own future preselections, than the jobs and wages of their members. Like the Government has forgotten that they are the representatives of the people, Union bosses have forgotten they are supposed to be the representatives of their members.

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[38] Senator Simon Birmingham; Mr Joel Fetter, Director Policy and Legal, Australian Council of Trade Unions, Committee Hansard, 27 September 2011, p. 29.

This abrogation of duty is highlighted by Union bosses who can't remember the last time they were on a work site and claim that the views of Union members do not 'filter up' to them yet still, miraculously, manage to give evidence that the majority of union members support the carbon tax:

> Mr CHRISTENSEN: The relevance is the testimony that has been given to us today, apparently on behalf of the union members. I refer you to two constituents in my electorate. Wayne Bouskill says, 'I am an AMWU unionist. I would like to say the carbon tax is a load of rubbish. It has no significance to this country whatsoever and it is going to cost jobs.' I have another one here from Phil Mifsud, an AWU delegate at Dalrymple Bay Coal Terminal, who says, 'I am not happy with the carbon tax. I don't think it is a right step in the right direction for the country, and I will not be backing it one bit.'
>
> Mr CHRISTENSEN: Can you tell us unequivocally today that the majority of your union members support the government's legislation—yes or no?
>
> Mr Fetter: Yes.
>
> Mr CHRISTENSEN: Yes? You say the majority would?
>
> Mr Fetter: From where I sit, my members are the 50 or so trade unions in this country[39]

ACTU members are of course Unions, not their workers. However, the failure of the ACTU to even consider itself as a representative of workers is a distinction which says much for the culture of self interest, greed and contempt for workers which has been on full public display from sections of the Union movement of late.

This contempt for workers is all too evident in the response from Unions when they actually bother to ask their members what they think:

> Mr CHRISTENSEN: You had a poll on your website back in April: 'Would you support a carbon tax on big polluters that was used to compensate households for increased costs?' What was the result of that poll?
>
> Mr Maher: I am not sure. There are about 200 and I took steps to close it down.
>
> Mr CHRISTENSEN: It was 78 per cent against.

[39] Mr George Christensen MP, Member for Dawson; Mr Joel Fetter, Director Policy and Legal, Australian Council of Trade Unions, Committee Hansard, 27 September 2011, p. 31.

> Mr Maher: That was on the construction division website and it was a thought-bubble by a junior officer…[40]

If the Unions don't like the response they shut it down. Blame someone else for asking the questions and ignore the answer. The parallels with the Labor party's modus operandi are compelling.

If this shot gun inquiry achieved one thing, it was demonstrating to union members across the country the contempt their Unions have for them and their willingness to sell out the interests of workers for perceived political advantage. The irony is of course that if the Unions actually wanted to help protect Labor Parliamentarians' seats they would pull the pin on their support for the carbon tax at the first opportunity and force the government back to the drawing board.

[40] Mr Tony Maher, CFMEU, *Proof Committee Hansard*, Sydney, 28 September 2011, p. 6.

3. Out of step with the world

The Prime Minister and her government have frequently warned that, without this legislation, Australia is at risk of 'being left behind'[41] the rest of the world in terms of action on climate change. However, the reality is the opposite.

Coalition members believe there are two key issues to be examined in determining whether Australia is keeping in step with the world, getting ahead of others or is a laggard, namely:

- the extent to which countries have committed and are acting in a coordinated way to reduce or constrain their current and future emissions levels; and
- the policies being adopted by other countries to reduce or constrain their current and future emissions levels.

Many witnesses have argued, including the Australian Coal Association, that global commitments to reduce or constrain current and future emissions levels are inadequate and out of step with the reforms being proposed by this carbon tax legislation:

> … would contend that Australia's effort to put a price on carbon and reduce emissions makes sense only if there is substantial progress towards global action by both our trade partners and trade competitors. Manifestly, that is not the case. In fact, at the moment global action is patchy and inconsistent.[42]

The extent of such global commitment is explored further in this section, as is the absence of comparable policies in other countries, which was identified earlier this year by the Productivity Commission:

> … no country currently imposes an economy-wide tax on greenhouse gas emissions or has in place an economy-wide ETS.[43]

The impact of such a policy, where Australia acts ahead of other countries, especially our trading competitors, is not limited to an economic impact in

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[41] Hon Julia Gillard MP, Interview with Mr Alan Jones, 25 February 2011. [http://www.pm.gov.au/press-office/transcript-interview-alan-jones-2gb]

[42] Mr John Harry Pegler, Chairman, Australian Coal Association, Committee Hansard, 27 September 2011, p. 64.

[43] Productivity Commission, *Carbon Emission Policies in Key Economies*, 2011, p. 50.

Australia, but also has the perverse potential to lead to an increase in global emissions, as argued by Labor's own climate change adviser, Professor Garnaut.

> … imposing a carbon price in Australia ahead of similar carbon constraints in our trade competitors … could result in some movement of emissions-intensive, trade-exposed industries from Australia to other countries that impose less of a carbon constraint. This could result in an increase in global emissions—in the event that the activity moves to a country that uses a more emissions-intensive production process than Australia.[44]

Australia is no laggard

Before addressing the extent of action in other parts of the world it is important to establish that already, with a carbon tax, Australia has demonstrated a capacity to deliver on our promises to limit emissions and is no laggard when it comes to action on climate change. As a nation we have a proud record of making responsible commitments for climate change action and of meeting them. We should celebrate this, not be cowed into believing, as Labor or the Greens would have it, that we are an irresponsible global citizen.

We are around the world's 16th largest emitter, accounting for around 1.3 per cent of global emissions, comparable to our place as the 13th largest economy in the world.

We made a commitment under the Kyoto Protocol to limit our emissions to 108 per cent of 1990 levels. Despite the unfortunate political debate that ensued in Australia about ratifying the Kyoto Protocol, we should hold our heads high that, according to the Department of Climate Change, we will come in well under target, with an increase in emissions against the benchmark of somewhere between three and six per cent.

Contrast that to other comparable developed nations and you see Australia should feel pleased with our efforts:

- Canada promised a six per cent reduction but is likely to deliver a 27 per cent increase;
- Japan also promised a six per cent reduction but is likely to deliver an eight per cent increase;
- New Zealand promised to hold to the baseline but faces a 26 per cent increase; and

[44] Professor Ross Garnaut, *The Garnaut Review 2011*, p. 83.

- The European Union looks set to fall six per cent or so short of their promised eight per cent reduction.

Similar evidence was presented to the committee by the Minerals Council of Australia:

> The government talks about the commitment made by 89 countries in Cancun and Copenhagen. There are varying analyses of that and there are some who say it falls well short of that target and there are differences in the scale of how far it falls short. Our proposition is that, when we are designing an emissions trading scheme, we should examine two things: what countries are saying and what countries are doing. Australia, since 1990, in terms of its emissions intensity per dollar of GDP, has improved its emissions-intensive carbon productivity by 44 per cent. For the European Union the comparable figure is 31. The comparable figure for the United States is 25. Australia's emissions since 1990 have gone up by between three and six per cent, depending on which government emissions data you look at. Other countries have gone up varyingly, the US by 17 per cent, Canada by 26, New Zealand by 23 and Japan by 13. We have outperformed both developed and developing countries—developing countries by a long way—since 1990. Australia is not a lagger.[45]

Australia has delivered. We have done so without a carbon tax or emissions trading scheme, but instead by becoming more efficient. Australia's emissions intensity – that is, our levels of emissions compared against our level of real Gross Domestic Product – has seen a dramatic 44 per cent decline since 1990. Businesses have sought greater efficiency based on commercial grounds, as the commercial incentive to minimise costly inputs like electricity and transport fuels are already strong.

To what extent is the world acting?

Optimism that the majority of the world, particularly the majority of major emitters, has a clear commitment to reduce or constrain their emissions in a measurable, reportable and verifiable way that would achieve stabilisation of global concentrations of greenhouse gases at an acceptable level dropped dramatically following the farcical end to the Copenhagen conference in December 2009. The Copenhagen Accord simply provided a means for countries to commit

[45] Mr Brendan Pearson, Deputy Chief Executive, Minerals Council of Australia, Committee Hansard, 27 September 2011, p. 76.

to non-binding, voluntary emissions targets, which the inquiry heard has little, if any, verification standards.

> Senator BIRMINGHAM: In the absence of a second commitment period or, for those who would prefer it, a new legally binding framework, what framework is there to ensure that global commitments are measured, verified and reported upon?
>
> Mr Young: Some of those were regarded as the holes in the Copenhagen accord, and that was that they were pledges. I am not up to date with the latest on it but certainly China resisted external verification of their reporting.[46]

The first commitment period of the Kyoto Protocol expires next year, in 2012. The failure at both the 2009 Copenhagen Conference and 2010 Cancun Conference for parties to agree on a new global mechanism of substance seems likely to be repeated at the Durban Conference later this year.

The inquiry into these bills heard that even the option of extending the Kyoto Protocol into a second commitment period was 'all very unclear'.[47]

This pessimism is borne out in global analysis, with a World Bank Carbon Finance Unit survey of participants in the global carbon market indicating that they regard it as unlikely that there will be an international agreement reached anytime soon for the post-Kyoto period.

> Survey respondents were not optimistic that a binding international agreement could be achieved in the short term.[48]

Asked how confident they were of there being 'a new legally-binding multilateral framework, similar to the current Kyoto Protocol, with legally-binding commitments to reduce emissions' close to 90 per cent of respondents were pessimistic or slightly pessimistic of any such framework being reached before 2015. More than 65% remained pessimistic or slightly pessimistic about there being a legally-binding replacement to Kyoto agreed before 2020.[49]

Global company ExxonMobil argued in their submission that this pessimism is warranted and that if Australia ignores the reality of this situation it will be to our economic detriment:

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[46] Mr Douglas Young, Law Council of Australia, *Proof Committee Hansard*, Canberra, 26 September 2011, p. 52.

[47] Mr Douglas Young, Law Council of Australia, *Proof Committee Hansard*, Canberra, 26 September 2011, p. 51.

[48] World Bank, *State and Trends of the Carbon Market 2011*, p. 17.

[49] Ibid, p. 18.

> The international reality post-Copenhagen is that a unified international emissions-reduction strategy is unlikely for two reasons: the inherent difficulties of governance and enforcement across regions; and the fact that regions are at different stages of their national development and therefore approach emissions-reduction with a different balance of priorities. Post-Copenhagen, a 'mosaic' of national and regional approaches is emerging.
>
> The implication of this reality is that countries with significant carbon prices on domestic emissions (such as Australia) risk exporting jobs, investment and carbon emissions to those without such costs. Trade exposed, energy intensive businesses including refining and LNG are especially vulnerable. [50]

Witnesses and submissions to the inquiry expressed strong views that Australia should be seeking an effective and comprehensive global agreement before going down the path of imposing a carbon tax across our economy.

> We remain strongly opposed to the introduction of a carbon tax and the subsequent trading scheme. Our consistent view is that a domestic carbon pricing mechanism should be contingent upon the operation of a broad based international agreement involving developed and developing countries. Until an international agreement is in place, our 350,000 members have indicated that reducing the growth in emissions should be achieved through efficiency and technology improvements.[51]
>
> … it is agreed generally that Australia is a small player—1½ or 1.3 per cent of emissions generally—and that, if in fact we were to operate on our own, it would have no effect on the goal of reducing the levels of emissions; it would just be torturing our own economy, costing us a lot of money and losing wealth and income. So I think the first answer is that we would certainly favour deferring any action until we can see a clearer picture of such action globally. I have to say that the picture we see at the present time is that only one group of nations—that is the EU—is taking action in any discernible measure in terms of reducing its emissions.[52]

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[50] ExxonMobil Australia Pty Ltd, *Submission 38*, p. 6.

[51] Mr Greg Evans, Australian Chamber of Commerce and Industry, *Proof Committee Hansard*, Canberra, 26 September 2011, p. 31.

[52] Dr Alan Moran, Director Deregulation Unit, Institute of Public Affairs, Committee Hansard, 27 September 2011, p. 59.

> Climate change is a global problem and therefore needs a global solution. That means that all the governments of the world should agree on the course of action. Copenhagen showed us that this is not possible, and indeed, that many countries are not interested at all.[53]
>
> I have 3 sons and 5 grandsons and I'm extremely concerned that climate change will significantly adversely affect their lives. As a result I am most anxious that all major polluters in the world significantly reduce CO_2 emissions. I urge you to delay imposition of the tax or other cost measures until we see similar commitment from the world's major polluters.[54]
>
> We the people are COMPLETELY OPPOSED to the carbon tax, which comes (inexplicably) as the global economy is heading for the toilet and our international competitors have NO PLANS to implement anything similar to this tax or emissions trading system. How will this tax regime make us anything but UNCOMPETITIVE in our region and the world?[55]
>
> The prudent and sensible course of action now is for the Australian Government to show leadership to the World by reacting to the changed global and domestic political and economic circumstances by deferring a carbon tax and emissions trading scheme until the global response to reducing carbon dioxide is clearer.[56]

Even the commitments made under the non-binding Copenhagen Accord have been called into question as to their effectiveness and even their efficacy. Contrary to Treasury modelling assumptions that assume a clear minimum global commitment under the Copenhagen Accord, the United Nations Environment Programme Emissions Gap Report estimates that even pledges made on a strictly conditional basis by developed and developing countries are just 60 per cent of what is needed by 2020 to keep the world onto a trajectory that will keep global temperature rises to less than 2^{o}C in comparison to pre-industrial levels[57]. The International Energy Agency concurs, stating that the 2^{o}C goal will only be achievable with a dramatic scaling up of effort.[58]

53 Ms Helen Miller, unaccepted submission, received 18 September 2011, 1.50PM.

54 Mr Jim Driver, unaccepted submission, received 18 September 2011, 2.01PM.

55 Mr Nicolaas de Vries, unaccepted submission, received 17 September 2011, 9.03AM.

56 Mr Ian Lansdown, unaccepted submission, received 20 September 2011, 6.38PM.

57 United Nations Environment Programme, *The Emissions Gap Report*, p. 16.

58 International Energy Agency, *World Energy Outlook 2010*, Executive Summary, p. 3.

Coalition members of the inquiry don’t seek to present a pessimistic outlook of global commitments, just a realistic one that allows Australia to make policy decisions with our eyes open rather than through distorted or rose-coloured glasses.

What policies are other countries pursuing?

Not only are many other countries not making the commitments needed to reduce emissions, they are not pursuing policies at all comparable to the carbon tax being advocated and advanced by the Labor Government in Australia. Even supporters of the carbon tax, such as the Climate Institute, acknowledge that action is not keeping pace with promises:

> I think we would be the first people to acknowledge that the level of global action at the moment is insufficient to meet the temperature goals that countries have committed to internationally.[59]

The impact of this was highlighted by, amongst many others, Rio Tinto:

> The current CEF package exposes Australian businesses to some of the highest carbon costs in the world, placing them at a significant competitive disadvantage and generates a level of uncertainty that will discourage ongoing investment in Australia. [60]

The World Bank report, *State and Trends of the Carbon Market 2011,* provides a useful snapshot of what action is or is not being pursued around the globe. The following points attempt to summarise some of its key findings, along with evidence from the Brookings Institute and information published by the Minerals Council:

- Canada has tied itself to the emissions reductions commitments and actions of the United States. Emissions trading is off the table at the federal level, in favour of sectoral action such as new fuel standards and new regulations on coal-fired electricity generation.
- Japan introduced legislation to the Diet in March 2010 that included consideration of an ETS component. Discussion on this component was deferred in late 2010 following strong opposition from industry and significant concerns about the cost to their economy. This deferral occurred before Japan faced the shock of this year's earthquake,

[59] Mr Erwin Jackson, The Climate Institute, *Proof Committee Hansard*, Canberra, 26 September 2011, p. 41.

[60] Rio Tinto, *Submission 29*, p. 1.

tsunami and associated nuclear safety issues, which have created even more policy uncertainty.

- United States has seen Congress reject various moves towards national cap and trade schemes on four occasions in seven years and this year has seen Congress move to suspend Environmental Protection Agency powers to regulate emissions under the Clean Air Act. At the regional level the ETS planned within the so-called Western Climate Initiative is now in doubt among proposed participants like Arizona, Utah, New Mexico, Washington and Montana. Only a handful of states or provinces may participate in its planned 2012 start-up.
- China in its latest five year plan sets an emissions intensity reduction target against GDP of 17 per cent. This is consistent with their targets announced at Copenhagen which, according to analysis undertaken for the Brookings Institution and Harvard University will see China's actual emissions rise by 496 per cent by 2020, based on 1990 levels. The International Energy Agency projects China will still build new coal-fired generation capacity of 600GW by 2035.
- India submitted a voluntary target under the Copenhagen Accord of reducing emissions intensity against GDP by between 20 and 25 per cent by 2020, based on 2005 levels. The same Brookings / Harvard research suggests this amounts to an emissions rise of 350 per cent based on 1990 levels, while separate analyses have concluded that this pledge is actually above India's existing business as usual emissions projections.
- Russia made an 'offer' under the Copenhagen Accord to cut emissions by 2020 by between 15 and 25 per cent against 1990 levels. However, reports by the Institute for 21st Century Energy that in 2005 Russia's emissions were about 45 per cent below their 1990 levels and this generous 'offer' will actually see a rise on 2005 levels of 26 to 43 per cent by 2020.

Then there's the oft cited European Union (EU) who are preparing to move into the third phase of their ETS. The different phases of their ETS are instructive as to why claiming it as an example of what Labor proposes for Australia is misleading.

The early phases were the epitome of the old adage about starting low and going slow. Even in the second phase, now nearing its end, only around three per cent of permits were auctioned, with few industries targeted. As the Minerals Council of Australia has reported, over the first five years of operation the EU ETS raised about $500 million per annum. The tax proposed for Australia will raise closer to $9 billion. That's an impost 18 times more on an economy one-thirteenth the size.

Even in the planned third phase, the EU has kept a far sharper eye on minimising carbon leakage and the concomitant loss of jobs and industry than the Gillard Government has done with the proposed carbon tax. Industrial sectors deemed at significant risk of relocating production outside of the EU because of their carbon price will receive 100 per cent of permits for free, based on an efficiency benchmark.

These facts in relation to the differences between Labor's proposals for Australia and the EU scheme were highlighted by numerous submissions and witnesses to the inquiry:

> … it is important to acknowledge that the rate of auctioning under this scheme … is higher than it was at the start of most other emission trading systems, including the EU scheme.[61]
>
> At $23/t the CEF imposes on Australians a price that is at least 50% higher than the price being paid by Europeans [62]
>
> … if we net out those permits. It is $50 billion in the first 6½ years for Australia and $4.9 billion for the European Union, so there is 10 times more revenue out of the Australian scheme than out of the European scheme.[63]
>
> Senator BIRMINGHAM: are you able to tell us what approach the EU has taken to the lime industry?
>
> Mrs DeGaris: we have not seen extensive trading and we have not seen the extensiveness or the coverage, for example, that this scheme is proposing for the industry here.
>
> Senator BIRMINGHAM: You say that the fixed price is very high by global standards.
>
> Mrs DeGaris: That is right—it is $23 a tonne versus $15 or $16 a tonne that we can buy today.
>
> Senator BIRMINGHAM: There is a floor-price mechanism built into this scheme as well. You have concerns about that?
>
> Mrs DeGaris: Yes, certainly. That is another opportunity to keep the price high, to cost Australia for liability purposes a higher price on carbon credits, carbon units.[64]

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[61] Dr Frank Jotzo, Crawford School of Economics and Government, Australian National University, *Proof Committee Hansard*, Canberra, 26 September 2011, p. 23.

[62] Australian Industry Greenhouse Network (AIGN), *Submission 33*, p. 2.

[63] Mr Brendan Pearson, Deputy Chief Executive, Minerals Council of Australia, Committee Hansard, 27 September 2011, p. 73.

[64] Senator Simon Birmingham; Mrs Roslyn DeGaris, Chief Executive officer, National Lime

Mr Pearson of the Minerals Council gave a detailed statement outlining the differences in the scale of the schemes between that proposed for Australia and the vastly different schemes operating in the EU or New Zealand, ultimately highlighting costs to business five times greater in Australia:

> Mr Pearson: the minerals sector opposes the passage of the Clean Energy Future legislation. The first of the two questions I want to talk about is the fact that, on all measures, the proposed legislation will put forward the world's biggest carbon tax. The carbon price will be the highest. It will be $23. That is 50 per cent higher than the EU price, 2½ times the New Zealand price and nearly 12 times the price that applies in the Regional Greenhouse Gas Initiative emissions trading scheme that operates in the north-east of the United States. The tax take per capita will be the world's highest. The tax take will be many, many times higher per capita than it has been in the European Union in the six years of the tax's operation to date and than it will be as we look forward.
>
> The transition period for industry to adjust will be the world's shortest. In the European Union, an industrial firm will not buy all of its permits until 2027. In Australia, there will be hundreds of industrial firms, including in our sector, which will buy all of their permits from day one. So there is a 25-year transition for a European industrial firm and no transition for an Australian industrial firm. The level of assistance to trade-exposed industry will be the weakest in the world. Seventy-five per cent of European merchandise exports will be covered by free permits after they start auctioning permits in 2013. About 20 per cent of Australian exports will be exported by firms that will receive assistance.
>
> The safeguards for jobs in the manufacturing sector and mining sector will be far inferior to those in the EU. There are 14.6 million Europeans working in manufacturing jobs that will receive free permits after 2013. Here, nine per cent of manufacturing jobs are in firms that will receive assistance under the Jobs and Competitiveness Program under this scheme. The cost burden on Australian exporting and importing competing industries will be the harshest in the world.
>
> Think of an average firm, and you can call it Joint Select Committee Pty Ltd, operating with an identical emissions profile in Australia and in Europe of one million tonnes of CO_2 per year.

Association of Australia, Committee Hansard, 27 September 2011, pp. 19-20.

> In the first three years of this scheme the Australian firm will pay $72 million. It is receiving no assistance. As we have said before, very few Australian firms will. So there is a $72 million burden for the Australian firm. The very same industrial firm in the EU, receiving no free permits because of its trade exposure, will pay A$14 million.[65]

Witnesses also highlighted concerns about the veracity of claims of action in some of the major emitting countries being made by the government and others:

> It had been suggested that the Chinese were putting a price on carbon, but on closer analysis when the Productivity Commission looked at it they said, 'That price is quite low. It is lower than the price that we have here in Australia and it is not envisaged to go very much higher.'[66]

> India does have a price on coal, whether it is imported or domestic, of about $2 per tonne. That is not very much different from the price we have on coal, which we call a royalty in New South Wales and in Victoria. It is a revenue price; it is not a price that would have any effect in terms of the operation of switching between fuels.[67]

> There is some new information that was provided by the Energy Information Administration, which is the US energy research body, in its *International energy outlook* on 19 September. In that report it projected that China's 2020 target that it agreed to in Copenhagen and Cancun is actually higher than 'business as usual' emissions. In other words, according to the projections from the US Energy Information Administration, China's emissions target in Cancun is actually higher than its emissions will be if it does nothing. In 2009 China's increase in emissions, 780 million tonnes, was more than Australia's total emissions. China's increase in coal consumption in 2009 was more than Australia's total coal production. In other projections, 75 per cent of the increase in world coal production to 2035 will occur in China.[68]

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[65] Mr Brendan Pearson, Deputy Chief Executive, Minerals Council of Australia, Committee Hansard, 27 September 2011, p. 71.

[66] Dr Alan Moran, Director Deregulation Unit, Institute of Public Affairs, Committee Hansard, 27 September 2011, p. 59.

[67] Dr Alan Moran, Director Deregulation Unit, Institute of Public Affairs, Committee Hansard, 27 September 2011, p. 60.

[68] Mr Brendan Pearson, Deputy Chief Executive, Minerals Council of Australia, Committee Hansard, 27 September 2011, p. 73.

> The US is abandoning its efforts at the federal level and individual states are pulling out of previously announced emission reduction commitments. The Productivity Commission, in its research that assessed overseas emission policies, reported that of the 11 US States and Canadian Provinces that had agreed to a carbon tax, only one remains fully committed. [69]
>
> …China is not moving towards emission restraints, in spite of its leaders proclaiming they will show global leadership on the matter – wind and solar comprises less than one per cent of electricity supply. Japan stated at Cancun that it was not going to take further action towards promoting renewables and it would not introduce a carbon tax. [70]

The Institute of Public Affairs joined with other submitters and witnesses in arguing that a tax or trading scheme in emissions may work in the event of relatively uniform global action but the very absence of such uniformity is a key factor in creating the problems they predict from the tax:

> Mr Moran: If the whole world said, 'Bang! We are going to have a carbon tax of $23 or whatever it is going to be and it is going to be on all countries,' there would be no or far less need for that sort of action. There would still be some issues. There are two matters. One is how we compete with the rest of the world, which is the nub of your question. We have to have a level playing field. The other is that people would have made investments based on certain assumptions of government and, if the government changes those assumptions, it could reduce the value of those investments and they may well request and receive compensation. That goes to the question: where are the property rights there? What would have been expected? What is reasonable? Is not clear, usually.
>
> Senator BIRMINGHAM: So this type of pricing mechanism works, say, in the perfect economists' model, where you can create a nice vacuum and put all other issues to one side and everyone acts in unison, but does it work in the real-world situation we confront today?
>
> Mr Moran: No. Obviously the government does not think it does either, because it does not have a perfect price mechanism; it has various industries in, various industries out, compensation here

[69] Institute of Public Affairs, *Submission 14*, p. 7.

[70] Institute of Public Affairs, *Submission 14*, p. 8.

and compensation there. Essentially, there is a recognition on the part of the government that the perfect solution is not the carbon price. Indeed, it has its carbon price and all the other accoutrements of the 20 per cent renewables and various subsidies in place. With a pure carbon price you would say, 'There is a carbon price. Get rid of the rest of it and let's go on from now.' I do not see anybody in government saying that.

Senator CORMANN: Isn't the problem that what we are told this whole carbon pricing package is supposed to address is for Australia to help reduce global greenhouse gas emissions but we are operating as part of a global market? The problem we are trying to address is a global problem. Because putting a price on carbon outside of an appropriately comprehensive global framework of pricing emissions does have international competitiveness implications, as well as creating various other distortions, the problem, really, is that we are trying to address a global problem through a domestic policy without being able to influence what happens in other parts of the world. Is that a fair comment?

Mr Moran: Yes, it is. It is almost like just putting a carbon tax in place in New South Wales and not the rest of Australia. You would see the industries migrating away from New South Wales to the rest of Australia. That is the same situation as what you are suggesting, I think.

Senator CORMANN: This is the last point I will have time to make. If there was an appropriately comprehensive global agreement, then addressing a global challenge through a global market based mechanism would be an effective way of going about it. The reason this is not effective is that the proposal is for Australia to act outside an appropriately comprehensive global carbon pricing framework. Is that right?

Mr Moran: That is right. There is no global carbon pricing framework; there is no policeman set up to do it; there is no way in which it can be done. It is basically goodwill and, indeed, it means Australia is certainly moving ahead of all its competitors and relying on the fact that they will come in behind us—which, if they do, it is well and good but, if they do not, it will destroy huge segments of our industry.[71]

[71] Senator Simon Birmingham; Senator Mathias Cormann; Dr Alan Moran, Director Deregulation Unit, Institute of Public Affairs, Committee Hansard, 27 September 2011, pp. 60-61.

Again, many of the thousands of unpublished submissions received by the inquiry highlighted the significant differences between the tax proposed for Australia and schemes operating elsewhere in the world, as well the impact of such disparities:

> To impose another tax on the Australian people, to attempt to change the world, without other countries doing the same is to ruin our economy completely. It will be helping world companies making billions out of the schemes governments have put in place saying they will curb global warming. It will be exporting carbon dioxide emissions to other countries such as China with no effect on the amount of carbon dioxide entering the atmosphere at all, as instead of buying Australian coal, they will use their own inferior product with greater effect on the amount of emissions.[72]
>
> I am currently based in Jakarta, Indonesia, and the people here (and around Asia) are laughing at our futile attempts at saving the world, and eagerly look forward to receiving all the business that will leave Australian shores.[73]
>
> I also believe that there is no need to introduce such a tax especially since the major emitters of carbon dioxide in the world, namely China and the USA have stated that they have no intention of introducing similar legislation in the near or medium future.
>
> This legislation will place an unfair burden on our economy and make us less competitive in the world market and have a negative effect on our economy. It will increase inflation, increase unemployment and increase the cost of living. This will adversely affect all Australians but especially those who are in the lower socio-economic groupings.[74]
>
> If in the future America, China and India imposed the same legislation, it could be reconsidered , but for our country to impose this penalty at this time is sheer LUNACY..[75]
>
> How can we as a Nation continue to remain strong and self sufficient when we are forced to disadvantage ourselves in favour of other Nations who do not have this tax and to whom we must pay so much ?[76]

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72 Ms Lorna Murray, unaccepted submission, received 17 September 2011, 1.51PM.

73 Mr Michael Smith, unaccepted submission, received 17 September 2011, 1.01PM.

74 Mr Michael Bishop, unaccepted submission, received 18 September 2011 2.02PM.

75 Pat Winton, unaccepted submission, received 18 September 2011, 1.48PM.

76 Mr Edwin and Mrs Nannette Bailey, unaccepted submission, received 18 September 2011, 1.51PM.

> High emitting industries will not cease production but merely transfer to other countries that do not require an equivalent tax or level of tax on carbon dioxide. Therefore a unilateral tax will have minimal effect on world pollution but will drive Australian manufacturing jobs off shore to other countries.[77]

> People were not happy about the GST but they accepted it because John Howard had been upfront about his intentions. The introduction of a carbon tax is not so urgent that it cannot wait until the next election given the rest of the world is not coming on board any time soon. In fact the carbon tax should be delayed until such time as America, China, India and the European union adopt a similar scheme. Why should we be putting ourselves at a competitive disadvantage by going it alone. I cannot see the logic in that.[78]

> My family and I - and everyone we know - are convinced that any introduction of this form of Tax must be put on the back-burner until the majority of all other countries, particularly those who emit the greatest levels of carbon dioxide emission - have joined a world-wide agreement for all countries to adopt a form of taxation that is applied in all countries.[79]

> Other nations, such as the USA, China and India are already moving on this issue and we risk getting left behind. But that's not true, is it? The fact is that emissions trading is dead in the USA at a national level and only a very few states have schemes. China may be investing in renewables but the large bulk of its power will come from coal-fired power for the foreseeable future. The PM is fond of pointing out that China is closing a coal-fired power station at the rate of one per week. What she fails to mention is that these are small inefficient plants (producing real carbon pollution – see above) and that they are being replaced by larger modern plants.[80]

Models based on false assumptions

Despite all of the aforementioned evidence that brings into doubt the extent of global commitments to reducing emissions and the actions being undertaken to do

77 Mr Bill Oakley, unaccepted submission, received 18 September 2011, 5.51PM.

78 Angela and Paul, unaccepted submission, received 18 September 2011, 1.51PM.

79 Mr Geoff Cass, unaccepted submission, received 17 September 2011, 3.00PM.

80 Mr Peter O'Brien, unaccepted submission, received 17 September 2011, 9.58AM.

so, the Gillard Labor Government has claimed to have undertaken Treasury modelling for scenarios in which the world took uniform action to achieve either a 550ppm stabilisation target or an even more optimistic 450ppm target.

The Treasury confirmed their optimism, both as to the extent of the pledges made and the current action to implement them, stating 'we have taken the Cancun and Copenhagen pledges as something that governments will be implementing'[81], going on to state:

> What we have done in terms of the modelling assumptions for international action is use the Cancun pledges and operationalise them in our modelling. That is what we have done, but that does require that countries live up to those pledges.[82]

Although this was tempered by some caveats:

> Mr TONY SMITH: So, just to be clear: firstly, you are confident that the reductions you predict or assume in the modelling could be achieved, would be achieved, by the US by alternative means if they did not have an ETS in place?
>
> Dr Gruen: We are doing the best we can do, based on the information available now. What will actually happen in the world remains to be seen, so I am not going to make statements about what will happen. I am happy to make statements about what are reasonable assumptions to make, given what we know now—[83]

DCCEE at least conceded that in places the implementation looks unlikely, especially through measures comparable to the one being proposed for Australia:

> If you come to the US in particular, their Cancun pledge was for a 17 per cent reduction by 2020. It is true that there are few people in the US at the moment that think they will achieve that through an economy-wide carbon price.[84]

Others seriously doubt the basis for the assumptions:

> Senator BIRMINGHAM: The Treasury has made all of its assumptions on the basis that the world will work towards a 550 parts per million stabilisation target, as it is known. Do you see evidence that the world is on track to achieve that?

[81] Ms Meghan Quinn, General Manager, Macroeconomic Modelling Division, Treasury, Committee Hansard, 21 September 2011, p. 7.

[82] Dr David Gruen, Treasury, *Proof Committee Hansard*, Canberra, 26 September 2011, p. 5.

[83] Dr David Gruen, Treasury, *Proof Committee Hansard*, Canberra, 26 September 2011, p. 5.

[84] Mr Blair Comley, Secretary, Department of Climate Change and Energy Efficiency, Committee Hansard, 21 September 2011, p. 8.

> Dr Moran: No, I do not see any evidence. Indeed, there is no country other than in the EU which is taking action to get anything close to that. There is certainly no country, other than in the EU, that has gone even as far as Australia has with its 20 per cent renewables.[85]

When looking at the detail of the modelling undertaken and challenged by Senator Cormann that the 2008 Treasury modelling assumed that Chinese emissions would be 16.1 billion tonnes of CO2 by 2020 compared with updated modelling projecting that Chinese emissions will be 17.9 billion tonnes of CO2 by 2020[86] the Treasury confirmed that:

> expectations of Chinese development have improved relative to the situation in 2008. We have raised the level of output in China, taking on board the recent information …our expectation is that, if people meet the Cancun Agreements, overall emissions in the world, which is what is important for tackling climate change, would be broadly consistent with the 550 parts per million trajectory, assuming people take action beyond 2020.[87]

Coalition members of the inquiry query how it is that Treasury, within the space of a couple of years, dramatically scales up the anticipated 2020 emissions for the world's largest emitter, but simply assumes sufficient additional abatement action will occur beyond 2020 to offset that. Other witnesses also noted and questioned changes from earlier models of earlier proposals:

> Treasury estimates of the costs we will incur have actually been reduced quite considerably over the past three years in their modelling. They are about half of what they originally suggested: $2,700 per person per year and, in 2052, cumulative costs of about $40,000, five per cent of GDP et cetera. I think we have to be very careful about the modelling. It has got a lot of assumptions, some of which are rather heroic. Several of them, for a start, involve all countries imposing a similar regime to that of Australia. We know at the present time that that is not taking place. Only the EU has similar regimes envisaged, or at least legislated for. Secondly, it does involve also rapid technological development in carbon capture and storage and other renewable technologies, and there really is not any evidence that this is happening anyway. Thirdly,

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85 Senator Simon Birmingham; Dr Alan Moran, Director Deregulation Unit, Institute of Public Affairs, Committee Hansard, 27 September 2011, p. 59.

86 Senator Mathias Cormann, Committee Hansard, 21 September 2011, p. 9.

87 Ms Meghan Quinn, General Manager, Macroeconomic Modelling Division, Treasury, Committee Hansard, 21 September 2011, p. 9.

> it does entail a continued expansion of coal exports, which is difficult to envisage given the abatement regimes worldwide are intended basically to kill off coal. Certainly it would not be possible unless there were massive breakthroughs in carbon capture and storage, and, of course, there are not any such facilities anywhere in the world.[88]

A particular concern emerges regarding the assumptions of international action made beyond 2020, with Treasury appearing to confirm that their modelling is based on countries making the same emissions reductions as they assume Australia will over that period, namely an 80 per cent reduction against the baseline:

> You are talking about a 550 parts per million scenario. To 2020 we have modelled the pledges that countries have put on the table through the international negotiations. After that we have looked at a scheme where countries make the same emission reductions as each other relative to their 'business as usual' path. So the analysis is that OPEC would reduce its emissions relative to its business as usual path by the same amount as Australia.[89]

Nonetheless, Coalition Senators welcome confirmation from DCCEE that the carbon tax proposed for Australia is at least five times greater in its initial impact than was the EU ETS, while querying the rationale for the complete dismissal that a “pilot phase” might have been a relevant comparison to make against the initial phase of Australia’s carbon tax:

> If you were to try to do a comparison of the equivalent market size over the same period—the three years in the EU scheme of 2013-15—and the Clean Energy Future package, the number for the EU ETS would be around 145 billion and the number for the Clean Energy Future package would be around 27 billion—if you were actually doing a like-for-like comparison. You would have the EU scheme being more than five times the size of the Australian scheme in the overall permit allocation on a like-for-like basis. I think the reason that these claims are a little unusual is that they are making comparisons of the first phase of the EU scheme, which was explicitly a pilot phase.[90]

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[88] Dr Alan Moran, Director Deregulation Unit, Institute of Public Affairs, Committee Hansard, 27 September 2011, p. 57.

[89] Ms Meghan Quinn, Treasury, *Proof Committee Hansard*, Canberra, 26 September 2011, pp. 8-9.

[90] Mr Blair Comley, Secretary, Department of Climate Change and Energy Efficiency, Committee Hansard, 21 September 2011, p. 16.

As well as concerns about the basis on which the Treasury modelling has been developed, numerous parties expressed concerns about access to the models:

> The Treasury modelling as such has not been released in any detail, so people cannot examine it in the forensic way that he would like to. Certainly in my own examination of where they state their assumptions they all seemed to be very circular to me. The assumption is that we will continue growing as an economy. The finding is that we will continue growing because they assume we will. I think we have to be very careful in looking at models of that nature and drawing conclusions from them.[91]

> We are also concerned, and this is one of the reasons that have delayed us somewhat in trying to put forward a response as to how we think the industry will be affected by the government's proposition, that Treasury modelling to a large extent is not transparent. That has made it somewhat more difficult.[92]

At the very least, Coalition members would have thought a sense of prudence and caution would have necessitated taking the approach advocated by the Australian Industry Greenhouse Network, who stated that the Treasury modelling:

> … provides very little insight into the likely economic impacts on Australia. None of the scenarios modelled by Treasury address one of the most likely international outcomes — that being the Government's commitment to a -5% below 2000 emission unit budget by 2020 within a fragmented international agreement. The short to medium term economic costs are not measured by Treasury modelling and the environmental benefits remain very uncertain in the absence of a robust international agreement. [93]

[91] Dr Alan Moran, Director Deregulation Unit, Institute of Public Affairs, Committee Hansard, 27 September 2011, p. 63.

[92] Mr John Harry Pegler, Chairman, Australian Coal Association, Committee Hansard, 27 September 2011, p. 64.

[93] Australian Industry Greenhouse Network (AIGN), *Submission 33*, p. 5.

4. Emissions keep going up

A giant outsourcing project

The fact of the matter is that this policy does not guarantee a reduction in emissions, particularly within our domestic market within Australia. Even globally the combination of the growth in emissions within key countries, as addressed in section 3, and the potential for carbon leakage, addressed briefly in this section and again across sections 8 and 9, means that Australia's activities provide no guarantees of reductions.

Within Australia the Treasury modelling, with its optimistic assumptions of the extent of international action, makes it clear that in the period to 2020, even with the carbon tax in place, Australia's emissions still rise not just against the baseline year of 2000, but even go up 43 million tonnes against Australia's level of emissions in 2010[94]. This point was highlighted in a number of submissions:

> Australia's CO2 emissions were 578 million tonnes in 2010 and with the measures in place are expected to be 621 million tonnes in 2020. [95]

By 2050, even with the passage of nearly 40 years and with the carbon price having reached $131 per tonne, emissions in Australia will have dropped just 32 tonnes[96]. Again, this point was highlighted in submissions:

> Even in 2050, with all the optimistic assumptions about new technologies, industry restructuring and a carbon tax of $131 Australian emissions are forecast to be 545 million tonnes … the modelling assumes that half Australia's emission reductions will be purchased from other countries (largely Asia and Russia). This involves Australia paying countries to abate their own emissions. It also entails the overseas sources being able to abate more cheaply, something that, 40 years hence, it is inconceivable we could know. [97]

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[94] Treasury, *Strong Growth Low Pollution, Modelling a Carbon Price – Update*, p. 5.

[95] Institute of Public Affairs, *Submission 14*, pp.12-13.

[96] Treasury, *Strong Growth Low Pollution, Modelling a Carbon Price – Update*, p. 5.

[97] Institute of Public Affairs, *Submission 14*, pp. 12-13.

Under Treasury's modelled prices of $29 in 2020 and $131 in 2050[98], which they argue will be comparable to the international prices, Australian businesses will not only be paying multi-billion dollar bills to the Australian Government for permits, but will also be spending billions overseas to purchase additional permits:

> Assuming Treasury's price estimates are accurate, Australia will be paying overseas carbon dioxide credit suppliers annual sums that range from just under $3 billion in 2020 to $57 billion in 2050. These are massive sums – the 2050 bill is greater than the value of our current exports from coal and more than twice the value of all our current agricultural exports. [99]

Some witnesses argued this structure of outsourcing our emissions responsibilities, often to our trading competitors such as the BRIC countries (Brazil, Russia, India and China), constituted a loss of opportunity to Australia and an abrogation of responsibility by Australia:

> We find it paradoxical, and disadvantageous from the point of view of Australia's international competitiveness, that the proposed Carbon Pricing Mechanism will apply penalties (either directly through permits, or indirectly, through increased electricity and gas prices) to Australian businesses, whilst their competitors in the BRIC economies are paid to reduce their emissions. [100]

> The tax will do nothing to reduce greenhouse emissions as we will be buying credits from other nations who have applied changes to their economy that actually cut emissions. I am not saying that Australia should not be doing something to reduce emissions but taxing citizens so we can buy credits from other countries is short sighted and does nothing to make a real reduction in emissions.[101]

> … will paying a third party (particularly an overseas entity) to obtain a piece of paper granting 'carbon credits', in practical terms, achieve any real improvement to the environment. To me, a slip of paper does not in any way alleviate or remove any responsibility to make a physical and actual effort to manage the environment. In addition to being obliged to pay to obtain this slip of paper, the only real affect of proposed carbon tax will be to add to the cost of

[98] Treasury, *Strong Growth Low Pollution, Modelling a Carbon Price – Update*, p. 5.

[99] Institute of Public Affairs, *Submission 14*, pp.12-13.

[100] Exigency Management Pty Ltd, *Submission 43*, p. 6.

[101] Mr Jason Horton, unaccepted submission, received 18 September 2011, 10.05PM.

> nearly every commodity which, as we ought to all be aware, will be passed down to nearly every consumer.[102]

Globally, submitters such as the National Lime Association highlighted how the leakage of emissions from Australia to other countries could harm the capacity to reduce emissions overall, not just those in Australia:

> Failure of the assistance package to protect EITE industry until an international "level playing field" is established will result in carbon leakage, and failure of the environmental objective to reduce global GHG and avoid climate change impacts. [103]

Exigency provided an example of how this may occur, highlighting along the way the nonsense of government claims that this package doesn't involve payments to so-called polluters:

> When we look at the clean energy policy, the whole point is that it pays polluters to reduce their emissions. The only difference is that those payments go to the developing nations overseas. Let me illustrate that with an example. I take a tonne of coal and I export that to China—I am not picking on China; it just happens to be a clever country. The emissions contained in that tonne of coal are free of carbon pricing. That tonne of coal is used to burn in a kiln to produce cement. That cement comes back to Australia in the form of railway sleepers to connect the new mines to the ports—again, free of a carbon price. So that has tilted the playing field against our own manufacturing base. Now, just to finish that picture, under the clean development mechanism, we pay the cement manufacturer an incentive payment to reduce the emissions from his overseas operation. The idea that an Australian focused policy pays polluters and, by inference, this carbon package does not is absolutely untrue.[104]

Mr Allinson went on to argue that once a country starts outsourcing its emissions reductions through the purchasing of international permits there is ongoing pressure for it to continue doing so:

> The real challenge for a penalty policy is: after the game starts, the lobbying does not stop. One of the key lobbying features that we see in Europe and that we will see here is that, once the permits are allocated, there will be continued lobbying to issue more

[102] Ms Jan Collins, unaccepted submission, received 18 September 2011, 2.13PM.

[103] National Lime Association, *Submission 4*, p. 4.

[104] Mr Stuart Allinson, Director, Exigency Management Pty Ltd, Committee Hansard, 27 September 2011, p. 16.

> permits because, as long as you have an open system with international credits, you can keep on issuing permits as long as you balance your national accounts with an equal number of offsetting international credits. So under this policy the federal government becomes the buyer of international credits of last resort. You cannot eliminate that risk and you cannot eliminate the rent seeking once we get the green light to go—I am sorry, but it continues under a penalty scheme.[105]

Of the thousands of comments received by the inquiry, many questioned the impact of this approach on Australia, while others queried how Australia would afford to send such large sums overseas in the future:

> Secondly, there is the purchase of abatement certificates. These are supposed to be purchased from 'overseas'. Exactly where overseas and how is not clear. Quite apart from the potential for rorting, a simple view of this proposal is that it will cost this country dearly as we condemn future generations to transfer our sovereign wealth "overseas". If our industries have moved "overseas" and we have only limited and unreliable access to power from environmentally friendly wind and sun, how will we, as a nation, be able to pay anyway.[106]

> The Money to buy Credits will be money sent overseas. Australia cops a net Debit from this Carbon Tax concept. The Australian Government should be looking at ways for Australia to get Net Credits only form any decisions made. Consider concepts that generate Australia Value Add opportunities and Net Credits only from decisions at the National and International Level.[107]

Credibility of international market

For this approach of relying greatly on international permits to work it requires the existence of reliable and effective permits. With the Treasury assumptions of agreed global action such markets may well exist, but given current trends in the international carbon market and the reality of international commitments and action there is cause for genuine concerns about the reliability of credible international permits into the future.

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105 Mr Stuart Allinson, Director, Exigency Management Pty Ltd, Committee Hansard, 27 September 2011, p. 16.

106 Ms Margaret Port, unaccepted submission, received 18 September 2011, 11.01PM.

107 Mr David Allen, unaccepted submission, received 18 September 2011, 5.08PM.

The World Bank report '*State and Trends of the Carbon Market 2011*' found that the total value of the global carbon market stalled in 2010. The value of the primary Clean Development Mechanism market fell by double digits for the third year in a row, ending lower than it was in 2005, the first year of the Kyoto Protocol period. Overall, the share of the global carbon market primarily driven by the European Union's Emissions Trading Scheme rose to 97 per cent in 2010, dwarfing all other segments.[108]

Exigency made the point that, as is proposed in Australia, the EU has effectively outsourced its emissions reductions:

> I am talking in terms of volume and environmental effectiveness. In the amount of paper that is traded, Europe is by far the vastest: there is $150 billion of permits traded in Europe every year. What we need to think about in terms of scale, though, is its environmental effectiveness. The European scheme is only environmentally effective because it has fundamentally outsourced its abatement activities to the clean development mechanism. [109]

DCCEE acknowledged the reality of the diminishing global markets, while suggesting it was caused by international uncertainty which, as discussed in section 3, appears unlikely to end anytime soon:

> I think the other thing that is very important to note about the CDM is the supply has slowed down largely in response to uncertainty about the international regime post 2012 but also in terms of which markets are likely accept CDMs.[110]

There is effectively only a European rather than a 'global' market, and even it has its problems, with the theft in January this year of €45 million of EU allowances leading to the closure of national carbon registries. In March of last year Hungary was caught out selling Certified Emissions Reductions that had already been surrendered under the EU ETS.[111]

The same World Bank Report, under the heading "The Carbon Market in Crisis?" summed up the woes of the various mechanisms that comprise the global carbon market:

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108 World Bank, *State and Trends of the Carbon Market 2011*, p. 9.

109 Mr Stuart Allinson, Director, Exigency Management Pty Ltd; Mr Adrian Palmer, Director, Exigency Management Pty Ltd, Committee Hansard, 27 September 2011, p. 17.

110 Mr Blair Comley, Secretary, Department of Climate Change and Energy Efficiency, Committee Hansard, 21 September 2011, p. 7.

111 World Bank, *State and Trends of the Carbon Market 2011*, p. 40.

> "The Clean Development Mechanism continues to suffer from registration and issuance delays due to complex procedures and capacity constraints. The Joint Implementation mechanism continues to be challenged by inefficient domestic bureaucracy and varying political support. There have been sovereign suspensions under the Kyoto Protocol and alleged misappropriation of Assigned Amount Unit sale revenues. The EU-ETS has suffered from alleged VAT fraud, money laundering and theft leading to registry suspensions and a dramatic loss of confidence and liquidity on the spot markets."[112]

Other witnesses also highlighted the questionable status of the global carbon markets:

> … purchasing emissions from overseas, at quite a considerable total cost, equivalent to something like twice the present value of our exports of food and something like the total cost of our current exports of coal. So it is a large balance of payments, a large impost—a gift, if you like, to the overseas suppliers of these credits, for some of whom their source integrity is under doubt.[113]

Even supporters of the carbon tax acknowledged these problems:

> … there have been some unfortunate and very specific examples where there have been problems with the development of the global market …[114]

To avoid the problems that have beset the market elsewhere, especially given the vast sums of money involved, the committee heard the system would require extensive policing:

> Verification would require a comprehensive policing to ensure payment is for genuine savings. Assuming Treasury's price estimates are accurate, Australia will be paying overseas carbon dioxide credit suppliers annual sums that range from just under $3 billion in 2020 to $57 billion in 2050. These are massive sums – the 2050 bill is greater than the value of our current exports from coal and more than twice the value of all our current agricultural exports. [115]

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[112] World Bank, *State and Trends of the Carbon Market 2011*, p. 41.

[113] Dr Alan Moran, Director Deregulation Unit, Institute of Public Affairs, Committee Hansard, 27 September 2011, p. 57.

[114] Mr Erwin Jackson, The Climate Institute, *Proof Committee Hansard*, Canberra, 26 September 2011, p. 47.

[115] Institute of Public Affairs, *Submission 14*, pp. 12-13.

Even the manner in which the government has structured the use of international permits in Australia drew criticism from some witnesses:

> The floor price on international permits could lead to inefficient carbon abatement outcomes and will raise the cost of the scheme for Australia. Implementation of the proposed top-up fee will be costly and difficult to administer. In our view it should be removed. [116]

Equally, many of those submissions not published by the inquiry raised concerns about the reliability of the global markets on which so much of this scheme depends:

> This proposed tax is totally unnecessary, and will cause huge damage to this country's jobs, productivity and economy. It will cause $30 billion to be sent overseas to buy carbon credits, with no lowering of our own carbon emissions and virtually no help to the planet.[117]
>
> Treasury figures show that we will achieve real cuts of only 60 million tonnes. The remaining 100 million tonnes of 'abatement' will have to come by purchasing carbon credits from overseas, at an estimated cost of $3 billion. Perhaps we could buy some of them from the five new coal-fired power stations in India and China that have been awarded nearly $1 billion in free carbon credits by the UN under its' Clean Development Mechanism! By the way, that's money going to dubious overseas schemes for which we will receive only the satisfaction of knowing we have 'done the right thing'. It's money that will not be available to fund the ongoing so-called 'compensation'.[118]
>
> Buying Carbon credits from other countries with dubious economic backgrounds is a recipe for disaster.[119]

Already driving a 'clean energy future'

Labor have billed this legislation as important to 'transforming Australia to a clean energy future'[120] but as discussed over the previous pages their carbon tax

[116] Origin Energy Limited, *Submission 18*, p. 2.

[117] Hilary Blakiston, unaccepted submission, received 18 September 2011, 1.49PM.

[118] Mr Peter O'Brien, unaccepted submission, received 17 September 2011, 9.58AM.

[119] Ms Michelle Davis, unaccepted submission, received 20 September 2011, 3.16PM.

[120] For example, Australian Government, *Securing Australia's clean energy future: the Australian Government's climate change plan*, p. 15.

proposal actually outsources much of the change and delivers minimal change within Australia.

Numerous witnesses, such as the Clean Energy Council and GE, acknowledged that the Renewable Energy Target (RET), a policy initially implemented by the Howard Government and one that enjoys bipartisan support, is actually the primary driver of investment in renewable energy:

> From our perspective the renewable energy target—the RET you are referring to—is the key driver of large-scale renewable energy in Australia. That scheme was split into a large- and small-scale scheme last year with the support of all major parties in the parliament and it will underpin investment in renewables through to 2020 and beyond.[121]
>
> The RET is the prime driver for additional renewable energy generation in Australia. The January 1, 2011 reforms with the segregation of the RET into large-scale and small-scale targets provides sustainability for the policy post-20% 2020 increase (or enhanced RET) legislated for in 2009. [122]

AGL agreed with the assessment of the Clean Energy Council and highlighted some of the other benefits of the RET:

> Mr Kelley: When the policymaker looks at why we would have a renewable energy target there are two benefits. Firstly, there is energy security, reliance on other sources and other suppliers of energy is eliminated through renewables. Secondly, to kick-start that transition to a low emission portfolio a renewable energy target is the perfect stimulus for that.
>
> Senator BIRMINGHAM: Even if this legislation passes, in the immediate future the primary driver of investment in renewables in Australia will remain the RET won't it?
>
> Mr Nelson: That is true.[123]

AGL further argued that the RET target of achieving 20 per cent renewable energy by 2020 is expected to deliver around $30 billion in investment.[124] Such investment is already delivered large results:

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[121] Mr Matthew Warren, Chief Executive, Clean Energy Council, Committee Hansard, 27 September 2011, p. 40.

[122] GE Energy Australia and New Zealand, *Submission 11*, p. 3.

[123] Mr Simon Kelley and Mr Tim Nelson, AGL Energy, *Proof Committee Hansard*, Sydney, 28 September 2011, p. 26.

[124] Mr Simon Kelley, AGL Energy, *Proof Committee Hansard*, Sydney, 28 September 2011, p. 24.

> Mr Griffin: Infigen is the largest owner-operator of wind farms in Australia. We have wind farms operating near Geraldton, at Mount Gambier in South Australia and near Bungendore in New South Wales. We have a large pipeline of wind farm and solar farm projects in Queensland, New South Wales, Victoria, South Australia and Western Australia.
>
> Mrs GASH: How many more would you have in the pipeline?
>
> Mr Griffin: We have close to 2,000 megawatts of new projects under development. As a case study, near Bungendore we have Capital Wind Farm and Woodlawn Wind Farm, which is immediately adjacent to it and connected to the same substation. Capital Wind Farm was fully commissioned at the start of 2010 and Woodlawn Wind Farm will be complete in a matter of weeks.[125]

The Clean Energy Council highlighted the transformational impact this more positive policy is already having on the renewable sector within Australia:

> the RET is demonstrated to deliver the lowest-cost large-scale renewable energy projects. I should say, as an adjunct, the SRES is delivering and has delivered significant deployment of both rooftop solar hot water and solar PV. It is worth noting that the cost of solar PV has fallen so dramatically globally. It is a stunning success story of what disruptive innovation looks like. The Australian industry is now talking about being able to deploy that technology at a $1.50 a watt, which basically means it is game over. The technology will be ubiquitous across Australia for the rest of the century. It is past the tipping point of being a potential technology.[126]

Organisations like ClimateWorks Australia presented evidence to the committee that there is more that could be done within Australia to reduce emissions:

> We excluded the purchase of international credits from our research because we wanted to show what was available on our own shores. I think that what pleased many readers of this report is that there is more available on our own shores than many realised.[127]

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[125] Mrs Joanna Gash MP, Member for Gilmore; Mr David Griffin, General Manager Development, Infigen Energy, Committee Hansard, 27 September 2011, p. 53.

[126] Mr Matthew Warren, Chief Executive, Clean Energy Council, Committee Hansard, 27 September 2011, p. 41.

[127] Ms Anna Skarbek, Executive Director, ClimateWorks Australia, Committee Hansard,

Coalition members of the inquiry believe that if Australia is serious about meeting targets to reduce emissions, which we believe as a responsible global citizen we should be, then these opportunities at home should be realised through more positive, incentive based action than Labor's approach of applying penalties at home and incentives abroad.

27 September 2011, p. 48.

5. Hurting households

Prices will go up

All Australians will pay for the carbon tax, be they big businesses, small businesses, charities, institutions, governments or households. They will pay as the increased costs faced by those forced to pay the tax directly or those facing increased fuel costs are passed on to all consumers of goods and services, especially through key utilities and "emissions intensive products, such as electricity and gas used for heating"[128].

As Labor's climate change adviser Professor Garnaut said in his updated advice to the government earlier this year:

> Australian households will ultimately bear the full cost of a carbon price.[129]

Unsurprisingly, electricity price rises as a result of the carbon tax stand out. As a result of this Labor Government policy, the optimistic Treasury modelling indicates that electricity prices will rise by between 9 and 11 per cent more than would otherwise have been the case in the near term and by between 23 and 38 per cent over the period to 2050[130]. The variances in these figures relate to which state households or businesses are in, with Victoria and Queensland the worst affected in the short term, while Western Australia and New South Wales feel the greatest impact over the longer term.

One of the many unpublished submissions highlighted the particular impost on Western Australia, where electricity price rises out to 2050 are forecast to reach 38 per cent:

> I live in Western Australia and I cannot believe that we have the newest coal fired power stations in the country and yet they do not qualify under the proposed scheme for the exemptions enjoyed by the older eastern states coal fired power stations. This increase in cost will undoubtedly be passed on to the consumer in a number of ways not just the cost to turn the light switch on at the family home. The cost of living in this country is already out of hand.[131]

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128 Treasury, *Strong Growth, Low Pollution, Modelling a Carbon Price*, p. 134.

129 Professor Ross Garnaut, *The Garnaut Review 2011*, p. 17.

130 Treasury, *Strong Growth Low Pollution, Modelling a Carbon Price – Update*, p. 12.

131 Mr Aaron Antonas, unaccepted submission, received 19 September 2011, 10.06PM.

During the first year of the fixed price period, namely 2012-13, it is expected the impact will be most severe, with the percentage rises translated in the Treasury modelling into the estimated weekly impost on households:

> Household expenditure, on average, is expected to increase by $3.30 per week due to higher electricity prices and by $1.50 per week due to higher gas prices.[132]

While these may sound like small increases to some people, Coalition members of the inquiry recognise that they translate into hundreds of dollars of extra costs for families and households around Australia. And that is before the price impact is passed through to all other goods and services people need.

The Democratic Labor Party highlighted the impact such price rises would have on families in particular, arguing the cost impact of the carbon tax becomes greater with each child added to a family:

> Families ought not be faced with the threat of increasing taxes as their families grow. More importantly, families ought not be faced with increasing taxes as they welcome another child into their home. Yet this is what the proposed Carbon Tax is designed to do.[133]

Unsurprisingly, the impact on households and the cost of living drew an enormous reaction from Australians of all walks of life, with a large proportion of the thousands of unpublished submissions received by the inquiry addressing this issue. Many realised that the cost rises faced by businesses as a result of this tax will be passed on:

> I do not believe for one moment that the cost will not trickle down to and affect my business and my lifestyle. I say that simply because I cannot ever remember ANY tax or government impost in that past that has not. The very nature of the way western economies are run ie: Supply and Demand essentially, dictates that all costs are passed up or down the economic ladder, eventually and irrespective of protection, government legislation and handouts.[134]
>
> This is a BAD tax for Australia, it will push up the cost of living and make us, the working Australians, poorer. If you think the

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[132] Treasury, *Strong Growth, Low Pollution, Modelling a Carbon Price*, p. 134.

[133] Democratic Labor Party of Australia (Victorian State Branch), *Submission 7*, p. 3.

[134] Mr Peter Heffernan, unaccepted submission, received 17 September 2011, 2.50PM.

major polluters are not going to pass on the tax to the consumers you are very much mistaken.[135]

Any suggestion that it will only be "large polluters" who will pay this tax, is totally untrue and an insult to intelligent Australians. The "flow-on" effect to consumers will be devastating financially, as many are already struggling to cope with the rising cost of living.[136]

Industry will not bear the cost alone of this tax, but will pass it on to the consumers of these goods- us. We will bear the greater cost. Average Australians are doing it tough already, with costs of things rising, e.g. Electricity, rent, and basic cost of living. Taxpayers, who supply this country's money supply are such as these and are not an endless source of money for the Government to milk.[137]

To tax 500 of the country's largest emitters of carbon dioxide is NOT a protection for residents from bearing the impact of the tax as all 500 companies will pass on these costs to consumers. To claim otherwise is disingenuous.[138]

I can barely afford my mortgage repayments, child support payments and the cost of utilities, let alone the other cost increases that are going to occur under the Carbon Tax. You may say that only the "big polluters" get hit with this tax but we all know that it is everyday people like me that get hit in the neck with this.[139]

I'm a uni student… don't forget that a carbon tax will impact on the price of everything that has to be delivered anywhere, and impacts on public transport as well as private transport. if you make big businesses absorb the costs then they will pass those costs onto everyone, and anyway, what is the purpose of a tax that doesn't create surplus? Someone has to lose and if it's the suppliers, then it's the consumers too.[140]

[135] Ms Janet Stringer, unaccepted submission, received 17 September 2011, 12.33PM.

[136] Ms Helen Topolski, unaccepted submission, received 17 September 2011, 12.34PM.

[137] Ms Colleen Varlow, unaccepted submission, received 18 September 2011, 2.04PM.

[138] Chris Bedford, unaccepted submission, received 18 September 2011, 2.12PM.

[139] Mr Sean Unwin, unaccepted submission, received 18 September 2011, 1.51PM.

[140] Rikki Gee, unaccepted submission, received 19 September 2011, 10.05PM.

> The big companies are just going to be passing the costs on and in time, the rebates (for those eligible) will have no effect at all in countering the increased costs of living.[141]

Others highlighted the continually increasing nature of the carbon tax, which goes up every year, from the fixed $23 in 2012 to a forecast $131 by 2050:

> I have read up on this subject and I believe that implementing such a tax will cause financial hardship to people of Australia. This tax will start off at one level and will no doubt increase to a higher level as time progresses.[142]

> The cost of living has increased considerably in the last couple of years, particularly petrol, electricity and food. I believe the Carbon Tax will increase the cost of living even further.[143]

Australians are under pressure

Australians are already feeling a significant cost of living pressure. The inquiry heard from thousands of people who know that the carbon tax certainly won't do anything to ease that pressure and fear that it will make it worse.

Agencies working in the welfare and community services sector brought to the attention of the inquiry the cost of living pressures that many households face and the particular role that costs of basic utilities, such as electricity prices, play in those cost of living pressures:

> Low-income earners are the most vulnerable to even small increases in costs of living, as spending on food, fuel and utilities takes up a large portion of weekly income. While the Government's proposed compensation measures aim to support households according to income bracket, we are particularly concerned about the impact of rising electricity prices.[144]

> …38% (rounded) of the poorest 30% of Australia's households were unable to pay electricity bills on time, due to financial stress, while 15% (rounded) of Australia's total population were unable to pay for electricity on time, a significant indicator of financial stress… It is most likely that a higher proportion of the population would now be unable to pay electricity bills on time.[145]

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[141] Ms Jennifer Tan, unaccepted submission, received 19 September 2011, 10.19PM.

[142] Ms Carol Petith, unaccepted submission, received 17 September 2011, 12.19PM.

[143] Ms Lina Coffey, unaccepted submission, received 18 September 2011, 2.07PM.

[144] UnitingJustice Australia, *Submission 37*, p. 4.

[145] Uniting Care Australia, *Submission 65*, pp. 10-11.

AGL equally highlighted the impact of rising electricity costs, indicating that under their predictions by 2015 it is possible that 6.6 per cent of households will be spending more than 10 per cent of their disposable income on electricity.[146]

The impacts of these price rises have resulted in an increase in the need for assistance to households to cope with rising costs. UnitingCare Australia and the Brotherhood of St Laurence highlighted such schemes:

> … that involve partnerships with utility companies to address and ameliorate people's energy poverty. We run one in several states now, the Kildonan model, in partnership with utility companies. It is a model that enables someone who, from the utility company's perspective, is a bad debtor, but, from our perspective, is somebody who is in dire financial and usually family crisis to be able to turn their lives around over the course of a year.[147]

Many low income earners, particularly pensioners, retirees, carers and young people, contacted the inquiry to express their concerns and highlight their personal situations with respect to cost of living pressures:

> From a personal point of view it is difficult enough for retirees now to cope with all the price increases that have occurred in essential goods over the last couple of years, without further excessive increases due to another tax.
>
> As I get a small super widows payment from the state government, I will not be entitled to any pension increase, and the proposed tax assistance is negligible. I will get no assistance whatsoever with these increased living expenses.[148]
>
> I write to express to you my deep opposition to the proposed Carbon Tax, I am a pensioner and at the present can barely afford my utilities charges now I am reliably informed that all the utilities will raise their Prices to accommodate this.[149]
>
> I am writing this submission as both a concerned Australian resident and as one who relies on a carers pension for the survival of myself and my two children with Autism. I have been following the Carbon tax debate and researching as much as possible over the last few months. It has come to my attention that if the full

146 Mr Tim Nelson, AGL Energy, *Proof Committee Hansard*, Sydney, 28 September 2011, p. 26.

147 Ms Lin Hatfield-Dodds, UnitingCare Australia, *Proof Committee Hansard*, Canberra, 26 September 2011, p.62.

148 Ms Lorna Murray, unaccepted submission, received 17 September 2011, 1.51PM.

149 Mr Tate Prentice, unaccepted submission, received 17 September 2011, 12.25PM.

price off the carbon tax was passed onto consumers (as has been predicted) then the total cost of living for myself would exceed the proposed compensation by a calculated three to four hundred dollars per year. As you can imagine the Carers Pension is only $250 a week, so this expense rise will take a heavy toll on my family that is already struggling to meet its financial obligations.[150]

I am only 21 years old and don't live at home. I find it extremely difficult to pay for all of the utilities I use and have had to cut back on food allowances to be able to pay for my bills. The carbon tax will not help me in any way shape or form when it comes to paying for living expenses.[151]

Others highlighted the extent of the existing tax burden on Australians or the particular pressures felt by families:

I feel that as a nation we are already heavily taxed and that any further tax would become a such a financial burden on many Australians that financially they will be at a crisis point.[152]

My firm belief is that this tax will harm the Australian economy, and that major companies taxed will pass on the increased cost of production to consumers, and that families already struggling under increased cost of living will be even harder hit.[153]

I am an average Australian with a wife and three kids. I struggle to pay my bills now as it is. This carbon tax will not change the climate one bit but will cost the average person hundreds if not thousands of dollars a year for no gain. It is a tax to spread wealth, that's all it is.[154]

I am a 46 year old wife and mother of 4 children. My husband is a self employed truck driver and I am an Allied Health worker. My husband works up to 80 hours per week and I work full-time. This will send my family budget up more than you would even know or estimate. We already have had huge increases in our electricity and gas bills and I don't know how much more we can absorb. You would consider us high income earners, however with a

150 Mr Matthew South, unaccepted submission, received 18 September 2011, 7.21PM.

151 Mr Calum Susko, unaccepted submission, received 19 September 2011, 9.34AM.

152 Mr H. Grech, unaccepted submission, received 18 September 2011, 1.51PM.

153 Mr Paul Barfoot, unaccepted submission, received 18 September 2011, 2.36PM.

154 Mr Paul Delaney, unaccepted submission, received 18 September 2011, 1.46PM.

> mortgage and 4 dependent children living in Sydney's western suburbs, I can assure you we are not affluent.[155]
>
> My husband's income is seen as 'high, and therefore I only receive a part pension of $23.70 per fortnight. I have a chronic health condition for which I need a lot of medication and supplements, and my son who is 15 year, has autism and severe language delays. And yet, a mere increase in my husband's salary of $20 per week would deem me ineligible for any pension whatsoever. I don't mind paying taxes if I can see what the money is being used for (and see a good cause), but I you cannot get blood from a stone. We, the people of Australia, are slowly being squeezed in any and every way possible.[156]

Other submitters, such as Mr Jason Horton, simply posed the question of whether 'the risk of rising power generation costs and subsequently retail energy prices' would push basic services out of reach of many Australians 'with some choosing to live without heating and cooling in fear of the cost'. Mr Horton asked the insightful question 'if the impact of the tax was negligible why then does the package include huge sums of compensation that are at risk at some future time for removal?'[157]

Millions still worse off

Around three million Australian households will, according to the Government's own optimistic modelling, be worse off under this carbon tax proposal. The Government expects Australia to have nine million households by 2012-13 and claims that almost six millions 'will receive assistance that covers at least the average price impact of the carbon price on their cost of living'[158].

Labor claims 'households will see cost increases of $9.90 per week, while the average assistance will be $10.10 per week'. [159] Coalition members of the inquiry note that the assistance payments are fixed and certain, while the estimates of cost increases are just that, estimates based on modelling that itself is based on optimistic assumptions about the operation and impact of Labor's carbon tax policy.

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[155] Ms Karen Campbell, unaccepted submission, received 18 September 2011, 2.01PM.

[156] Alex Clark, unaccepted submission, received 20 September 2011, 10.03PM.

[157] Mr Jason Horton, unaccepted submission, received 18 September 2011, 10.05PM.

[158] Australian Government, *Supporting Australian households: Helping household move to a clean energy future*, p. 5.

[159] Australian Government, *Supporting Australian households: Helping household move to a clean energy future*, p. 5.

With an average buffer of just 20 cents per week, the estimates of the average cost impact of the carbon tax on Australian households would need to be out by little more than 2 per cent for millions more Australian households to find themselves joining the three million who are already known to be worse off.

Coalition members of the inquiry are also concerned that many of the low income households the Government forecasts to be better off may in fact be worse off as a result of their high exposure to electricity price rises:

> Some low-income households are very low users of energy. Some of them are high users of energy because they have disabilities, chronic health conditions, lots of kids and there is a lot more need in the household or they are living in rental properties, particularly private rental properties, where the infrastructure is not being renewed.[160]

In some instances the compensation being offered lacks transparency. While the changes to the tax free threshold, income tax rates and Low Income Tax Offset may bring greater transparency to the marginal rate of tax, they have been misrepresented by many within the Government, including the Prime Minister who claimed without qualification to be "tripling the tax free threshold"[161]. The truth of these tax interactions is more complex:

> The low-income tax offset, which is currently $1,500, reduces to $445 and the withdrawal rate reduces from four per cent to 1½ per cent. Currently what happens is that through the range from about $37,000 to about 67½ thousand dollars people are effectively paying 34c in the dollar currently, being 30 per cent on the statutory rate and four per cent on the withdrawal of the low-income tax offset. Effectively what the changes do is rebalance and make more transparent the rate that people are paying. So the effective rate will still be 34 per cent through $37,000 to about $67,000.[162]

One of the disturbing elements of the so-called compensation package that accompanies the carbon tax is the increase in income tax rates, with the 15 per cent rate increasing to 19 per cent in 2012-13 and the 30 per cent rate increasing to 32.5 per cent in 2012-13 and rising further to 33 per cent in 2015-16.[163]. This will bring

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[160] Ms Susan Helyar, UnitingCare Australia, *Proof Committee Hansard*, Canberra, 26 September 2011, p. 62.

[161] Hon Julia Gillard MP, Sydney Morning Herald, *Gillard Promotes Carbon Tax at Forum*, 5 October 2011.

[162] Mr Marty Robinson, Manager, Household Modelling and Analysis Unit, Treasury, Committee Hansard, 21 September 2011, p. 12.

[163] Australian Government, *cleanenergyfuture Fact Sheet: Household Assistance – Tax Reform*, p. 3.

about the first increase in marginal tax rates in Australia since the 1980s, increasing disincentive within the tax system and further harming Australia's competitiveness.

Coalition members of the inquiry also note that the thresholds for eligibility to receive the planned assistance are often fixed and concur with the Council of the Ageing that 'threshold creep' may quickly see many Australians lose eligibility for compensation they are currently being promised:

> One of the issues that COTA is concerned about is that, to keep the value of the package, the income levels that are used to set eligibility for some of the payments, such as the Commonwealth seniors health card and the low-income supplement, need to be indexed in the future to keep pace with increases in average incomes in the community, otherwise people are going to have bracket creep out of eligibility quite quickly. That is one of the things that are not built into the package that needs to be there.[164]

For most Australians any compensation comes solely in the form of the income tax adjustments. However, these are at risk of being subjected to 'bracket creep' just as other payments may face 'threshold creep' with the committee receiving evidence that confirms there are only two adjustments to income tax planned in the package before the parliament, notwithstanding the estimates of the carbon tax impact stretching out to 2050:

> Ms Winzar: There is also a standard provision for indexation of income support payments and family payments going forward beyond the period covered by this first phase.
>
> Senator BIRMINGHAM: That is only part of the compensation, though?
>
> Ms Winzar: That is true.
>
> Senator BIRMINGHAM: And it does not reflect the income tax adjustments.
>
> Ms Winzar: No, the income tax adjustments are handled separately.
>
> Senator BIRMINGHAM: There are only two phases of income tax adjustments—is that correct?
>
> Ms Winzar: Yes.[165]

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164 Ms Josephine Root, COTA Australia, *Proof Committee Hansard*, Canberra, 26 September 2011, p. 60.

165 Senator Simon Birmingham; Ms Peta Winzar, Group Manager, Department of Families,

Labor has repeatedly promised that compensation will keep up with the increasing cost of the carbon tax. However, when questioned during the inquiry about this promise, the DCCEE was unable to point to any part of the legislation before the committee and the parliament that actually delivered on the promise:

> Senator BIRMINGHAM: I just turn to a statement the Prime Minister made on 11 July 2011, when she said:
>
> Compensation is going to keep increasing so that as the carbon price moves, household assistance is permanent and it will continue to increase as well
>
> How does this legislation fulfil that promise?
>
> Mr Comley: Treasury can come up the table and talk about that if they want. That is a question of the tax law. But I believe that is a policy commitment—the intention of the government going forward.[166]

Given the Gillard Labor Government's lack of commitment to its previous intentions regarding having a carbon tax, Coalition members of the inquiry are deeply worried about relying on a commitment or intention of the government that is not actually reflected in the laws that are currently being rammed through the parliament.

There is even a question as to whether the Government will be able to fund increases in compensation within the budget into the future. As established in section 4 of this report, ever increasing billions of dollars are expected to be spent under this plan by Australian companies to purchase international permits. DCCEE confirmed that companies would pass on these costs to consumers but was unable to clearly demonstrate how government could fund ongoing compensation given the billions of dollars in revenue from the purchase of international permits that goes overseas rather than into government revenue:

> Mr Comley: Purchases of international permits by domestically liable parties do not go into the budget in any way because they are not through the government.
>
> Senator BIRMINGHAM: Yes, indeed, Mr Comley, as you said before; however, those companies will pass on the costs, won't they?
>
> Mr Comley: Yes, and that is factored into the modelling.

Housing, Community Services and indigenous Affairs, Committee Hansard, 21 September 2011, p. 21.

166 Senator Simon Birmingham; Mr Blair Comley, Secretary, Department of Climate Change and Energy Efficiency, Committee Hansard, 21 September 2011, p. 20.

> Senator BIRMINGHAM: Can you explain how it is then that the government will be able to keep compensation up with those costs that are passed on when the government is not receiving the funds for those international permits that are purchased?
>
> Mr Comley: It still has sufficient funds to do that because of the expectation of auctioning the permits.
>
> Senator BIRMINGHAM: How do you know? Can you present some evidence that there are sufficient funds?
>
> Mr Comley: We have not got modelling beyond the forward estimates, but the government has made a policy commitment to do that on an ongoing basis.[167]

As outlined in section 9 of this report, Mr Comley went on to suggest that there may need to be a trade-off between industry compensation or household compensation … a policy decision for the future that Coalition members of the inquiry note would result in a choice between further damaging the competitiveness of Australian industry or placing further pressure on the cost of living.

Coalition members of the inquiry also note that the current package of government measures runs at a budget deficit of more than $4.3 billion over the forward estimates[168]; a period during which all revenue comes to government due to the initial prohibition on using international permits. This begs the question, if the Government cannot provide the compensation required to underpin its carbon tax without increasing the budget deficit when there is no cost impact from the use of international permits, how on Earth does it believe it can ensure compensation will keep pace when there is a cost impact from the use of international permits?

The concerns of Coalition members of the inquiry about the likely immediate costs of the carbon tax, adequacy of compensation arrangements and the ongoing impact of these factors were again shared by many who submitted their thoughts to the inquiry:

> I work as a long distance truck driver and this tax will make me work even longer hours than I already do now to cover the extra costs that this tax will bring.[169]

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[167] Senator Simon Birmingham; Mr Blair Comley, Secretary, Department of Climate Change and Energy Efficiency, Committee Hansard, 21 September 2011, p. 21.

[168] Australian Government, *Securing a clean energy future: The Australian Government's Climate Change Plan*, p. 135.

[169] Mr Garry Wilson, unaccepted submission, received 17 September 2011, 1.28PM.

I am an ex-service veteran of the Vietnam War trying to survive on pensions. With the huge increases in the cost of living the last thing I need is another tax which will increase further the cost of living. The government says that I will be compensated to offset cost increases. I just don't believe that this will occur.[170]

We, as self funded retiree's, have suffered huge financial losses to our Superannuation funds, due to the GFC. The cost of living is growing at an alarming rate, in electricity, food, fuel, gas and water and everyday expenses. The introduction of this new tax WILL impact on our ability to pay our bills and the stress on our already diminished Superannuation based allocated pension, and our personal wellbeing, is unconscionable.[171]

The fact is every quarter me electricity and gas bill increase. My supermarket bill is also inflating monthly. Not to mention the cost of diesel, public transport etc. The cost of living in Australia has risen rapidly without a carbon dioxide tax. What are we to expect next July? I will not, nor will any of my friends or family receive any compensation from the government. We are all very scared and uncertain about our future due to this unnecessary tax.[172]

I am a 70 year old self funded retiree. I am a Bachelor of Commerce and formerly practiced as a Chartered Accountant, Certified Practising Accountant, Registered Tax Agent, and Registered Company Auditor. It will adversely affect our economy, make businesses less competitive, and put people out of work. It will increase the daily costs and expenses of all entities and people.[173]

There is no doubt in my mind that increased costs produced by this tax will impact every business, family and individuals in a substantial way. Unemployment has already increased in regional Australia, and this is where the tax will have the most negative impact, due to job loss and increased transport and industry costs. Australian products will not be able to compete against imported products (as many imported goods will be cheaper as they do not have a carbon tax) and consumers will be forced to buy from overseas.[174]

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[170] Mr Bob Kinnane OAM, unaccepted submission, received 17 September 2011, 12.59PM.

[171] Richard and Lynette Matthews, unaccepted submission, received 18 September 2011, 2.11PM.

[172] Ms Kylie Tennyson, unaccepted submission, received 18 September 2011, 5.52PM.

[173] Mr Des Featherstone, unaccepted submission, received 20 September 2011, 4.55PM.

[174] Ms Rachael Calrow, unaccepted submission, received 21 September 2011, 9.03AM.

6. Small business squeeze

Small Business to be hit hard by the carbon tax

Small business, the engine room of our economy, will be hit hard by the carbon tax. Australia's 2 million small businesses are facing the lowest business profitability environment in 18 years according to the Sensis Business Index and know a carbon tax will just make a tough situation worse. Treasury, however, believes small business can just pass costs on:

> Mrs GASH: I will be very quick. Small business and medium-sized enterprises will certainly feel the full flow-on effect of increases to electricity and so forth. How much compensation have you modelled in for small businesses?
>
> Mr Comley: The first point to make is that many small businesses will actually pass on the costs that they will face. It is not a form of compensation but if you think of one which is not particularly emissions intensive in the broad scheme of things—a dry cleaner et cetera—they face little international competition and they would pass that on.[175]

This is stark contrast to business groups who understand the market environment and conditions facing small business owners:

> … the chamber unambiguously represents the views of businesses as energy users but, more particularly, the views of small and medium ranking businesses, which face the prospect of much higher energy prices and also hikes in the prices of their inputs. It is true that these business range across many sectors and have varying degrees of exposure and varying degrees of market power as well. Consequently, these entities will have limited capacity to pass on higher energy prices or higher costs of other inputs. Nor are such businesses able to adjust their processes to substantially alleviate the associated price impacts. Therefore, their earnings and competitiveness will suffer, and so will jobs and expansion opportunities.[176]

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[175] Ms Joanna Gash MP, Member for Gilmore; Mr Blair Comley, Secretary, Department of Climate Change and Energy Efficiency, Committee Hansard, 21 September 2011, p. 23.

[176] Mr Greg Evans, Australian Chamber of Commerce and Industry, *Proof Committee Hansard*, Canberra, 26 September 2011, p. 31.

Many small businesses simply will not be able to pass on increased costs to customers:

> Our organisation is in a situation where we will not be able to pass any additional costs from an increased tax on to any consumers and as such we will wear the full impact of this legislation.
>
> … while I can see the rationale regarding the economic need to price carbon, I feel that this is not an effective measure in isolation and neither is this appropriate at this time. In fact I feel this will have a greater negative impact on Australian productivity with no gross or net impact on carbon emission whatsoever.[177]
>
> I am a small business owner and employ 12 people. They are mostly single and young married. Some are working and studying part time. Others are paying off homes. In my office we are all hard working, tax paying and voting Australians.
>
> The services we provide are to larger companies and we rely on their corporate health for our work. Electricity prices are a great concern for us. My office electricity has increased from $410 per month 2 years ago to over $530 per month. We cannot increase our prices and have had to give substantial discounts to clients to help them through the GFC. My business and our jobs cannot survive more cost increases.[178]

Jobs at risk, businesses crippled

While the Government likes to claim just 500 businesses will pay the carbon tax, electricity prices will be felt across the board, cost pressures will be felt by large and small business alike and the world's largest carbon tax will cost jobs:

> Australian businesses have seen that, under a carbon pricing regime and associated schemes, electricity prices will probably double between now and 2015 and perhaps triple by 2020. And it is not hard for those businesses to do their own calculations as to how that might impact on their profitability. Many of our members have in fact done that exercise.[179]
>
> The Queensland Resources Council said that $23 per tonne Australia will have the highest carbon price in the world. Our own

[177] Mr Shaun Lane, RehabCo, unaccepted submission, received 20 September 2011, 5.29PM.

[178] Mr Ken Taylor, Mainpack Pty Ltd, unaccepted submission, received 18 September 2011, 9.08PM.

[179] Mr Greg Evans, Australian Chamber of Commerce and Industry, *Proof Committee Hansard*, Canberra, 26 September 2011, p. 36.

> Queensland Tourism Industry Council said that it will increase the cost of doing business for many industries, including tourism, through the direct and indirect impact on energy costs. Qantas was quoted as saying that this tax will rip $110 million to $115 million from their bottom line in 2012-13. Virgin Blue were quoted as saying that higher air fares are inevitable and that international airlines do not have to pay carbon tax in their own markets. The Australian Retailers Association were quoted as saying that retailers are at the very end of the manufacturing and supply chain and cost increases along the line will ultimately be caught by them. Australia's leading meetings and events company was quoted as saying that this tax will increase the cost of holding business events in Australia. When those sorts of quotes are in a very public forum, and our organisation's role is to inform our members and our businesses, they are pretty strong quotes.[180]

For businesses the carbon tax just adds more weight to their workload and is another example of the Labor’s heavy taxing approach to Government:

> It is factual that businesses constantly tell me that they are drowning in red tape, their fees and charges are going up, with local government and state government taxes and ultimately this federal tax. The general viewpoint of businesses right across the board is that they are being forced to deal with consistent increases in red tape and they feel that increased charges are being constantly put upon them. That is not my view; it is what our businesses are constantly telling us. Any new tax proposed by any level of government, whether it be federal, state or an increase in local rates, does alarm businesses.[181]

Rural Australia will also be hit by the carbon tax, not just with increased transport and business input costs, but increased power costs will hit struggling sectors hard:

> … the grain sector we believe will be by far the worst affected. Also the dairy sector, because some of our dairy farmers have very high power usages growing green feed during very long summer periods. Some of those dairy farmers will be well and truly affected by increased power costs.[182]

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180 Ms Mary Carroll, Capricorn Enterprise, *Proof Committee Hansard*, Sydney, 28 September 2011, pp. 37-38.

181 Ms Mary Carroll, Capricorn Enterprise, *Proof Committee Hansard*, Sydney, 28 September 2011, p. 38.

182 Mr Michael Norton, WA Farmers Federation, *Proof Committee Hansard*, Sydney, 28 September

> As the owner operator of an engineering business located in rural Australia this tax is going to significantly increase my operating costs as well as raw material costs and is very likely I will have to reduce staff in order to compensate. Our company employs 23 local people and our weekly wages contributes a significant amount to the local economy. The increases to us will come by way of significantly increased electricity costs, increased steel and aluminium prices, increases in poly tank prices, and possibly higher wages demands so that staff can also offset the increased household costs.[183]

The carbon tax is a direct threat to jobs as input costs rise and consumers, faced with price rises across the board, have less disposable income:

> As an example, take my daughter and son in law, who own and run two small businesses employing up to 60 staff, they will be adversely affected should such a tax be imposed. … In the case of small businesses already reeling from floods, cyclones and similar natural disasters the only way to make ends meet will be to lay off staff. This will be a direct result of this tax. … The only beneficiaries of this tax will be this country's competitors. Countries such as China, Indonesia, Malaya, India, the US and the Arab Nations will be making huge profits at the expense of our own industries.[184]

> As a small business owner involved in the retail industry, the effects of the carbon tax, that has not been introduced as yet, are already being felt. We run a good business but that does not help when people are worried about basic life essentials becoming more expensive.[185]

> As a Caravan park owner … It will mean that we will be forced to increase our fees & charges which ultimately will hurt our permanent residents & also force our fees up for tourists increasing the risk of reduced occupancy of the park. Our tourists are mainly Grey Nomads who are already feeling the stress because of the worldwide financial turmoil in regards to their investments, this has already reduced our occupancy this year.[186]

2011, p. 55.

[183] Mr Barry Sharp, AAA Engineering Technologies Pty Ltd, unaccepted submission, received 21 September 2011, 8.03AM.

[184] Mr David Melandri, unaccepted submission, received 18 September 2011, 1.49PM.

[185] Ms Michele Clifton, unaccepted submission, received 22 September 2011, 8.55AM.

[186] Mr Jaeson Brache, unaccepted submission, received 18 September 2011, 1.52PM.

> I am a small business owner and can see that as a direct result of this tax that my costs will significantly increase - every time I switch my computers on or get into my car to see a client I will be paying this tax. I do not believe that I will be "compensated" for these additional costs and will be left with the option of absorbing them or passing them on - I along with thousands of other small businesses will be passing them on and I would suggest that whatever modelling may have been done does not reflect this cost to Australia.[187]
>
> Small businesses such as my daughter's dog grooming salon (which has been running successfully for just on 21 years) are struggling with viability at the moment and can only look forward to a further plunge in incomes when customers cannot afford such as small thing as having their pet dog washed and clipped![188]

For many businesses, the carbon tax may be the final straw:

> I am the part owner of a micro business which is trying to export Australian owned and made goods to various parts of the world. Over the years we have built up relationship in Asia, Europe, North America and New Zealand.
>
> … If a carbon tax legislation is enacted it will increase the manufacturing prices which will in turn will be passed onto us in goods what we are trying – struggling – to export and might just will mean for some of our customers that they will either try to find an alternative and cheaper supplier or cutting back on orders.[189]
>
> I am a director of a small Australian manufacturing company & we are already down to break-even margins competing against imports, many of these imports being subsidised by overseas Governments. Any additional cost burden placed on our business will certainly result in a loss of sales, which unfortunately will follow onto a loss of jobs & possible closing of our company.
>
> We are not a big company & it will not hit the news if 30 more people no longer have a job, but there are lots of small businesses in the Australian market that are just like my company.[190]

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[187] Mr Tony Jordan, Tony Jordan Insurances, unaccepted submission, received 19 September 2011, 12.51PM.

[188] Ms Helen Scobie, unaccepted submission, received 18 September 2011, 1.53PM.

[189] Mr Tibor Bode, unaccepted submission, received 19 September 2011, 10.26PM.

[190] Mr Bob Wilson, unaccepted submission, received 19 September 2011, 5.37PM.

> We own a small printing business and since 2008 we have been struggling to keep the doors open due to the GFC. We have been in business for 18 successful years but are now in a position, if the Carbon Tax comes in, and everyone loses any more confidence in spending, we will lose our business, our house and our livelihood. …
>
> We will suffer significant price increases in purchasing from the suppliers, paper, plates, ink, bindery etc. …
>
> We also don't want to destroy our employees' livelihoods, they have house loans and young families to support. They are like our family, all working hard to survive these very tough times together.[191]

The Government claims many small businesses are not trade exposed in the manner that some of the industries receiving compensation are. The reality is many actually are and this carbon tax won't just send many big businesses off shore, but small businesses as well. That's investment, jobs and emissions being shipped overseas where there is no carbon tax and where emissions may indeed be greater than they were here:

> My major objection to it is that it will cost me and my business about $100-$200 a week for no real reduction in carbon emissions.
>
> Already I have done things with installing solar ($45,000 approx) and gas services ($5,000), insulation ($5,000) and other energy reduction matters to reduce my emissions but there seems to be no real compensation for these types of action "going forward" …
>
> What we seem to be doing or setting up to do is push pollution off shore and make the same things at worse pollution rates![192]
>
> I … object strongly to a carbon tax as our family business which recycles waste plastic will face costs that we cannot afford or are unable to pass on. Plastic recycling uses vast amounts of electricity and utilizes the heavy transport industry extensively and therefore will feel the full brunt of this tax. We are an environmentally beneficial business who is not compensated by government in any way and will have no choice but to take our business offshore in order to compete with imported resin if this tax goes through.[193]

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[191] Ms Andrea Humber, unaccepted submission, received 18 September 2011, 2.01PM.

[192] Mr Rob Fitzgerald, Harriett's Cottage Accommodation, unaccepted submission, received 18 September 2011, 1.53PM.

[193] Mr Andrew Odgers, EcoPolymers, unaccepted submission, received 18 September 2011, 6.40PM.

It is clear that the carbon tax will come at significant cost to small business at a time businesses can least afford it. Many small businesses operate on tight margins and increased electricity prices, transport costs and reduced consumer spending power will drive many to the wall.

While all sides of politics want to lower Australia's carbon emissions, the Labor-Greens plan to pull the shutters down on small business is not the way to go about it.

7. Communities cop the cost

The Government's legislation places a burden on communities around Australia without adequate, or in some cases any, compensation. These include farming and other regional communities, the community welfare sector, and effectively all Australians through an impost on local government.

Copping it at the local level

Local Government councils across Australia expect to suffer significant cost impacts, including through costs associated with landfill waste disposal and through reduced capacity of ratepayers to fund council core services.

DCCEE has addressed thresholds for landfill facilities.

> A local government that has a waste facility that exceeds the threshold—25,000 tonnes—would be liable for that landfill facility. If it had a facility of more than 10,000 tonnes within a prescribed distance from a large landfill facility, one greater than 25,000 tonnes, then that facility would also be liable. Local councils are liable through landfills. They would face other costs—electricity costs or other fuel costs—but as liable entities they would be drawn in through their tips.[194]

Councils indicate they are yet to be provided with any certainty as to what costs associated with landfill will be incurred.

These concerns and ongoing uncertainty were highlighted by the Council of Mayors (SEQ) which claims to represent a region (South East Queensland) that is home to three million people, or one in seven Australians.

> While waste deposited prior to 1 July 2012 will not be liable under the proposed pricing mechanisms, it is unclear as to whether waste deposited each year after this date will be liable for emission for that year only or on an ongoing basis.
>
> Detail is to be included in the regulations however immediate clarification on a council's liability is sought as we believe this could have a significant financial impact on a council. The methodology for determining landfill gas emissions and

[194] Dr Steven Kennedy, Department of Climate Change and Energy Efficiency, *Proof Committee Hansard*, Canberra, 21 September 2011, p. 14.

> wastewater treatment plant methane emissions need to be clarified.
>
> For example, Ipswich City Council has been advised by waste contractor Veolia that the landfill price is likely to increase by around $22 per tonne for municipal and $20 per tonne for commercial and industrial waste from 1 July 2012.[195]

The absence of detail about landfill cost impacts was also raised by the organisation representing councils nationally, the Australian Local Government Association, through Chief Executive Adrian Beresford-Wylie.

> … it is not entirely clear to us how many landfills and how many councils will be impacted on by the scheme, since the details of the scheme have not been worked out. if it is going to cost several hundred thousand dollars for a council to put in place a system, it is not every council which will be able to find several hundred thousand dollars to put in place a flaring system. In terms of the actual number of councils and council landfills that are going to be covered by any scheme, we do not have the detail of the scheme at the present time, and I think it is jumping to conclusions to say that all councils or the majority of councils will be able to ameliorate or abate their exposure.[196]

Councils and landfill owners have sought a carbon price moratorium of at least three years:

> Council of Mayors (SEQ) supports and reiterates the position of local government in relation to waste emission liability as outlined in submissions made by the Australian Local Government Association. It also refers the committee to submissions on this topic made by the Australian Landfill Owners Association which calls for a three year moratorium on the introduction of a carbon price to allow time for local government to clarify measurement methodology, become familiar with and put in place systems to meet reporting requirements, and initiate gas collection and flaring where this does not exist at landfills.[197]

Shoalhaven City Council addressed uncertainty surrounding landfill, as well as other forecast cost impacts it faces.

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[195] Mr John Cherry, Council of Mayors (SEQ), Submission 68, p. 2.

[196] Mr Adrian Beresford-Wylie, Australian Local Government Association, *Proof Committee Hansard*, Melbourne, 27 September 2011, p. 35.

[197] Mr John Cherry, Council of Mayors (SEQ), Submission 68, p. 3.

> We are a largish local government organisation. To give you a context, our budget is $180 million a year. We service a population of about 100,000 people that grows to 300,000 in the peak of summer. We have been reporting for some time, and we reckon that our greenhouse gas emissions, as reported, are around 29,000 tonnes per annum, excluding our landfill. Our landfill is getting close to 50,000 tonnes in gross emissions per annum. That is relevant in terms of this 25,000-tonne threshold. However, we do extract gas from our landfill, and that brings us down to 13,000 tonnes per annum. That is even more relevant to the 10,000-tonne threshold that we will come to.
>
> I will cut to some of the cost impacts that we have forecast. We are using the numbers that are around the place and seem not to be disputed in terms of most of the flow-on costs. We think our energy costs are going to increase as an indirect cost by something in the order of $285,000 per annum. We think our fuel costs are going to increase by $9,000 in terms of nontransport and, in that 2014 scenario, another $25,000 on our heavy vehicles. As an organisation that does lots of physical work, we have 70-plus vehicles that will be in that heavy vehicle category. They consume about 350,000 litres a year.
>
> When we look at our waste operation, the sooner we can get clarity on what is in and what is out and how we are counting things, the more helpful it will be. A lot of things are unclear.[198]

Within the constraints imposed by this uncertainty, Shoalhaven raised a possible amendment to address their circumstance.

> … if we were to ask for something to be different, it would be that issue of the 10,000-tonne threshold within whatever the distance is. We do not even know what it is, but we are assuming—because of Wollongong and Shellharbour, who operate big landfills—that we will have a 10,000-tonne threshold instead of 25,000. For us, it would be really helpful if it were just left at 25,000 tonnes. If that 10,000-tonne threshold, which is supposedly to stop people allegedly moving waste around from one facility to another, were not there from a legislative point of view then that would be a significant upside for our council in particular.[199]

[198] Mr Rob Donaldson, Shoalhaven City Council, *Proof Committee Hansard*, Sydney, 28 September 2011, p. 43.

[199] Mr Rob Donaldson, Shoalhaven City Council, *Proof Committee Hansard*, Sydney, 28 September 2011, p. 45.

The capacity of ratepayers was canvassed by the Australian Local Government Association.

> … many councils look at their ability to raise rates and they do take account of the capacity of communities to pay. This is the reality. The community is not an endless sink from which money can be drawn and councils are acutely aware of the restrictions and limitations on individual communities to actually pay rates. Those communities and individuals in those communities pay taxes at the state and the federal level as well.[200]

The ALGA also highlighted research into the expected impact on ratepayers in Victoria and, by extension, across Australia.

> The Municipal Association of Victoria did some figures on what they considered to be the likely impact on councils from the introduction of a carbon price. Most councils thought that the increased costs would lead to a likely need to increase rates by somewhere between one per cent and five per cent. If we were to extrapolate nationally then we would be talking about costs somewhere in the order of $300 million.[201]

The likely need to raise council rates was confirmed by the Assistant General Manager of Shoalhaven City Council, Mr Rob Donaldson.

> Mr CHRISTENSEN: There are some things that you as a council will not be able to change. There will be cost impacts. You are saying that if those are not being fully compensated, the costs will have to be passed on to ratepayers?
>
> Mr Donaldson: Yes.[202]

Evidence was provided to the committee of the range and breadth of services and expenditure expected to feel the effects of a carbon tax.

Construction/local infrastructure:

> It is fair to say that construction costs do generally go up by more than CPI. There will no doubt be a cost; but I cannot tell you what the actual cost is going to be, although it is fair to say that we will

[200] Mr Adrian Beresford-Wylie, Australian Local Government Association, *Proof Committee Hansard*, Melbourne, 27 September 2011, p. 36.

[201] Mr Adrian Beresford-Wylie, Australian Local Government Association, *Proof Committee Hansard*, Melbourne, 27 September 2011, p. 34.

[202] Mr Rob Donaldson, Shoalhaven City Council, *Proof Committee Hansard*, Sydney, 28 September 2011, p. 46.

> probably bear the same costs that are borne by the state governments with their road materials as well.[203]

Swimming pools and other civic facilities:

> Most of our consumption is in the major civic buildings, the one or two large leisure centre facilities that have swimming pools, heating and so on, and our water treatment facilities.[204]
>
> One of our major facilities, the Bay and Basin Leisure Centre, has a very substantial photovoltaic system and has been looking at photovoltaic cells and rooftop water-heating mechanisms. Probably between $200,000 and a quarter of $1 million worth of capital has gone into that. We think that will take off about five per cent of the energy bill for that facility.[205]

Copping it in the regions

It is clear from the inquiry that businesses in regional areas fear the consequences of the Government's legislation, and specifically the costs and ramifications of the carbon tax it would implement.

Capricorn Enterprise is both a Regional Tourism Organisation and Regional Development Organisation and has a diverse membership making it well placed to comment on the views of businesses involved in a range of industries and enterprises.

> Our organisation is a membership based organisation. We have major corporate partners, whether they be mining firms, contractors to mining companies or service sector industries to the resources sector. Right down through to small business, we represent retail, health, education, tourism, agriculture—a whole raft of industries. It would be fair to say that, certainly in Central Queensland and the area where we live, the general viewpoint of a lot of businesses is that at the moment they feel they are suffering a lot of red tape anyway. They feel generally that this is another tax that is going to affect them. We are, can I say, an apolitical organisation. This is a very contentious issue up here and we try

[203] Mr Adrian Beresford-Wylie, Australian Local Government Association, *Proof Committee Hansard*, Melbourne, 27 September 2011, p. 35.

[204] Mr Rob Donaldson, Shoalhaven City Council, *Proof Committee Hansard*, Sydney, 28 September 2011, p. 46.

[205] Mr Rob Donaldson, Shoalhaven City Council, *Proof Committee Hansard*, Sydney, 28 September 2011, p. 46.

> and be fair and reasonable in our comments about such issues. But many of our businesses, small right through to large industry, have expressed quite openly in private and public forums their concern about this tax.[206]

Among specific and particular concerns to come to the attention of Capricorn Enterprise are expected impacts on the transport sector, upon which the vast majority of other businesses rely in some way.

> I am getting a lot of representations from transport to say that the impact on transport will be significant. Rocky's Own Transport, which are now an intrastate group, have made various representations and have done a lot of modelling. As I understand it, they are a lead agency in this. I have only just come from another meeting where they presented. It is transport that will see an impact that will impact across all sectors. Of course, you have the energy generators and then you have the mines that actually have emissions. So it could be a tax that will have a very significant economic impact on Central Queensland.[207]

Transport is also among several specific concerns to farmers, as outlined by the WA Farmers Federation, which is opposed to the legislation.

> WA Farmers Federation does not support the carbon tax proposal. Our reasons are pretty straightforward. From the evidence that has been given to us, we believe that financially we will be worse off under a carbon tax. … Farmers are very much at the end of the line and we believe a lot of the costs from processing, from retailing and from transport will gravitate back as increased costs and charges to growers.[208]

Transport issues associated with the carbon tax will hit regional areas in numerous ways, especially those that impact on aviation, which is so critical for tourism into regions, as well as regional access to major centres. Qantas made it clear that the significant costs associated with aviation will be passed straight through to consumers:

> Domestic airlines will be exposed to the full starting carbon price of $23 per tonne through an increase in aviation fuel excise from

[206] Ms Mary Carroll, Capricorn Enterprise, *Proof Committee Hansard*, Sydney, 28 September 2011, p. 37.

[207] Mr Neil Lethlean, Capricorn Enterprise, *Proof Committee Hansard*, Sydney, 28 September 2011, p. 42.

[208] Mr Michael Norton, WA Farmers Federation, *Proof Committee Hansard*, Sydney, 28 September 2011, p. 54.

> July 2012 and will not have access to transitional assistance or compensation arrangements. It is estimated that the cost impact on the Qantas Group will be approximately $110-115 million in the financial year 2012/13.
>
> In the context of the significant commercial and structural challenges facing the global aviation industry, the Qantas Group will be unable to absorb the additional costs associated with the carbon price. There will be a full pass-through to customers… [209]

While transport would be one factor they are worried about, Australia's cane farmers expressed their concerns about the impact of the tax throughout their value chain:

> The carbon tax will result in increased and embedded costs in the sugar production value chain, resulting in a decrease in the profits of cane farming businesses which have been under extreme pressure over the past decade. [210]

Their concerns were echoed by the National Farmers' Federation, who emphasised the impact on international competitiveness, a particularly important issue given the global market many of Australia's primary producers operate within:

> These costs will erode the competitiveness of the agricultural industry in the domestic and international markets on which we depend. As the recent Productivity Commission review highlighted, across the world, countries are developing climate policies that recognise the importance of agriculture and deliberately prevent any additional costs being added into their farmers businesses. [211]

Organisations representing the horticulture industry or fruit and vegetable growers point to their high input costs, especially electricity, and argue the tax will squeeze already tight margins further:

> … the cost of electricity will increase substantially despite the concessions. Growers with on-farm packing sheds and large refrigeration units, essential for the delivery of fresh and healthy food to market, are heavy users of electricity. In some cases, electricity consumption can exceed $20,000 per week. The starting price of $23 per tonne of CO2-e will result in an increase in electricity costs of approximately 2.5c per kilowatt-hour. For some

[209] Qantas Airways Limited, *Submission 17*, p. 2.

[210] Australian Cane Farmers, *Submission 3*, p. 1.

[211] National Farmers' Federation, *Submission 63*, p. 5.

growers, the introduction of a carbon price will lead to increases in electricity costs of up to several thousand dollars per week. Other energy intensive inputs, such as fertiliser and chemicals, will also increase in cost. In addition, freight costs will increase from July 2014 when the exemption for the heavy transport vehicles is removed. [212]

…many farming enterprises are already battling to be profitable as the profit margins for growers are very small. Effectively, the costs of farming inputs have continued to increase yet the average net return for grower's produce has increased very, if at all over the past decade. [213]

Dairy farmers presented similar concerns to those expressed by the horticulture sector, highlighting modelling to demonstrate their particular exposure to the price shocks of the new tax:

Importantly dairy farming appears to be more impacted by the new tax arrangements than even other parts of agriculture. The AFI estimated dairy farm incomes could fall by 7 - 8% in 2013 under the announced tax package (an impact almost double that facing other agricultural sectors) ... Based on ABARES estimates this suggests dairy farmers face an average per farm cost increase of $1,400 per annum across Australia when the new carbon tax comes into force. Farms involved in irrigated dairying operations are likely to face the highest cost increase. In some regions this cost increase could be much higher. ABARES estimates Tasmanian dairy farms have average electricity expenditure in 2011 of $37,000, suggesting increases for farms in this state of close to $4,000 per year under the new tax. [214]

It is clear to Coalition members that, despite the language from Labor about agriculture being excluded, there will be a significant cost impact on the agricultural sector, all while potentially positive and transforming opportunities appear to be overlooked by Labor's punitive policy, such the need to:

… lift organic matter management and compost use into mainstream horticultural and agricultural practices. A key first step is to quantify soil carbon sequestration benefits from use of external organic residues as soil amendments. Over 150 leading

212 Growcom, Submission 34, p. 4.

213 Bundaberg Fruit & Vegetable Growers, *Submission 10,* p. 1.

214 Australian Dairy Industry Council, *Submission 44*, pp. 2-3.

> researchers and practitioners from Australia delivered this and other messages at the 2011 International Symposium. [215]

Copping it at the expense of community welfare

UnitingCare Australia is a major player in the community welfare sector, and well qualified to comment on expected cost impacts.

> UnitingCare Australia is the national body for the UnitingCare network. We deliver social services right across the life course—for example, children's services, childcare, employment, disability, housing, emergency relief and financial counselling. We deliver some hospital service, a lot of aged-care—residential and community—and family services. I would have missed a heap. Anything you can imagine we are delivering it in a community somewhere across the country. We have about 1,500 delivery sites and 35,000 staff. … I speak with knowledge about my own network, but I think you can extrapolate this to the broader community sector. In the same way we are having a conversation in Australia about trade-exposed industries, I think there are some exposed parts of the community sector, and they are the parts of the community sector that rely heavily on electricity, water and fuel. That is anything residential. Our disability services and our aged-care services use not just a lot of electricity but a lot of water in a lot of what we do in caring for and supporting residents. It is not unusual for our services delivering particularly community based aged care but also other services that involve lots of driving to be very exposed in terms of petrol prices. This is in a context where electricity costs are increasing at between 11 and 17 per cent a year anyway, so our services are being squeezed and there will be a cost impact on our services.[216]

UnitingCare Australia have highlighted an expected shortfall between available compensation and expected cost impacts on the many services they provide.

> In terms of the package, there are two elements that will impact our services. One is clearly the household compensation package. That will make a big difference in some of our residential services where there is a user-pays component, as in residential care. That will make a difference. It will not make all the difference and we

[215] Compost Australia, *Submission 53*, p. 1.

[216] Ms Lin Hatfield-Dodds, UnitingCare Australia, *Proof Committee Hansard*, Canberra, 26 September 2011, p. 58.

> do not anticipate it will close all of the gap. There is the community funding bucket—I cannot recall what it is called—of about $300 million from memory that you can apply for.[217]

DCCEE Deputy Secretary Dr Steven Kennedy confirmed to the inquiry that the $330 million Low Carbon Communities program is the sole avenue for carbon tax compensation for the charity sector:

> Mr CHRISTENSEN: I want to ask about compensation for the punitive impacts it might have on not-for-profit organisations and charitable groups. That is all contained in the Low Carbon Communities program; is that correct?
>
> Dr Kennedy: Yes, any direct assistance to those organisations is.[218]

However, it is also clear from evidence to the inquiry that seeking access to this centrally administered grants program will add to an organisation's bureaucratic workload.

> Low Carbon Communities is a grants and outlays program.[219]
>
> We spend a disproportionate amount of our time applying for funding and then acquitting and complying with funding.[220]

Some charitable organisations, such as the Royal Flying Doctor Service, will face particular imposts as a result of the carbon tax. While the government has claimed it will compensate them, it will still leave them reliant on yet another rebate program, with all of the compliance and paperwork issues that come with that.

> On the issue you raised around support for services such as the Royal Flying Doctor Service and those sorts of issues, at the release of the legislation the government announced a full stream of the Low Carbon Communities program. This stream is to be known as the Charities Maritime and Aviation Support Program. It will offer a rebate for the carbon price impact on essential maritime and aviation fuels used by organisations such as air and sea rescue services.[221]

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217 Ms Lin Hatfield-Dodds, UnitingCare Australia, *Proof Committee Hansard*, Canberra, 26 September 2011, p. 59.

218 *Proof Committee Hansard*, Canberra, 21 September 2011, p. 18.

219 Mr Blair Comley, Department of Climate Change and Energy Efficiency, *Proof Committee Hansard*, Canberra, 21 September 2011, p. 18.

220 Ms Lin Hatfield-Dodds, UnitingCare Australia, *Proof Committee Hansard*, Canberra, 26 September 2011, p. 63.

221 Dr Steven Kennedy, Deputy Secretary, Department of Climate Change and Energy Efficiency, Committee Hansard, 21 September 2011, p. 19.

Inevitably, in this space some services will be negatively affected. Coalition members of the inquiry wonder about the impact on Angel Flight, as an example, where people donate their own time, planes and fuel to provide a service to charity. It would seem that these individuals will still face the full impact of the increase in aviation fuel costs, unless each volunteer is to be eligible for the rebates announced.

For those where a specific program component is not established it is clear that a great number of organisations, not just those in the charitable or welfare sector, will be competing for a limited pool of available compensation.

> Mr CHRISTENSEN: I want to go back to the Low Carbon Communities program … out of the $330 million, only $200 million will go towards not-for-profit organisations and local governments. That includes everything from a local soccer club through to an organisation like Red Cross. That amounts to something in excess of 600,000 organisations that would be vying for that fund over a six-year period, after which it would then stop. So I just wanted to know if your peak bodies have that understanding that this is a competitive process and there is no guarantee that you are actually going to get that compensation; and, if you did divide one number by the other, you would find the compensation would be very low indeed, and it stops in six years time—five years, actually.
>
> Ms Hatfield Dodds: We are certainly aware of that…[222]

DCCEE provided evidence that the Government expects the shortfall between available compensation and expected cost impacts on community organisations – as identified above by UnitingCare Australia – is expected to be met by members of the community being compensated for the carbon tax to such a great extent they are going to increase their donations to charities or charities passing on increased costs to service recipients.

> … the general compensation package that goes to individuals and the way effectively the Treasury models this is they are purchased services by people, so their income capacity in order to make donations is higher than it otherwise would be.[223]

Generous though Australians are, Coalition members of this committee regard with great scepticism the Government's apparent optimism in a greater reliance on

[222] Ms Lin Hatfield-Dodds, UnitingCare Australia, *Proof Committee Hansard*, Canberra, 26 September 2011, p. 63.

[223] Dr Steven Kennedy, Deputy Secretary, Department of Climate Change and Energy Efficiency, Committee Hansard, 21 September 2011, p. 18.

charitable donations to bridge funding gaps created by the carbon tax or a greater capacity of recipients to pay for services, particularly given – as canvassed elsewhere in this report – that even with the Government's compensation, millions of Australian households are still forecast to be worse off under the carbon tax.

8. Key industries compromised

This section looks at the key concerns expressed by some of Australia's key industries, particularly but not exclusively those who are emissions intensive trade exposed industries, which are likely to be hardest hit by the carbon tax.

An underlying concern across these industries, and the wider business community as well as households, is the carbon tax's impact in driving up the cost of electricity, especially coal-fired electricity generation. Even Treasury conceded uncertainty surrounds some of the impacts on this sector:

> Senator CORMANN: I refer you to page 3 of the updated modelling, which says:
>
> Similarly, the modelling does not include the planned closure of 2,000 MW of electricity generation capacity of the most emission-intensive power plants, as this requires assumptions about which generators close under the tender process and when they close.
>
> Given that many of these emissions-intensive power plants produce very cheap electricity, would the closure of these plants put further upward pressure on electricity prices?
>
> Ms Quinn: It would depend on the timing of when the generators were slated for closure and it would depend on how the system adjusted to putting a price on carbon.
>
> Senator CORMANN: But can you envisage any circumstances where closure, when it does occur, would not lead to further increases in electricity prices?
>
> Ms Quinn: The electricity market is quite a complex structure. The price of electricity is set by the price of the marginal generator, so it would depend.[224]

The Energy Supply Association indicated that their sector will account for most of the emissions permits market, stating that they will "be 60 per cent of the scheme in its entirety, and we will probably be at least 90 per cent, if not more than that, of the auction market".[225] From their research the costs of the carbon tax are significant:

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[224] Ms Meghan Quinn, Treasury, *Proof Committee Hansard*, Canberra, 26 September 2011, p. 2.

[225] Ms Clare Savage, Acting Chief Executive officer, Energy Supply Association of Australia, Committee Hansard, 27 September 2011, p. 8.

> The ACIL Tasman study did find that for coal fired generation the cost of carbon would be the single biggest input cost. In fact, at a carbon price of just $25 a tonne, it would increase total operating costs for a coal fired generator by between 100 per cent.[226]

The committee received substantial evidence about the issues surrounding energy security and the carbon price, especially regarding the stranding of assets and lack of compensation for the loss in asset value:

> In terms of the implications for energy security we are concerned about the level of assistance to coal fired generators. There will not be a single dollar of compensation paid to black coal fired generators under this scheme. From our perspective that does send a worrying message to future investors in the electricity supply system.[227]

> Government modelling during the CPRS found that over the first 10 years black coal-fired generators would suffer asset value losses of $5 billion to $6 billion (real 2008-09 dollars)… The industry calls on the Government to release the details underpinning the estimates for the reduction in profitability of coal-fired generators as soon as possible. Figures presented for losses in profitability under the CPRS and CEF only cover the first ten years of the scheme, while the profitability of generators will continue to decline beyond this period as the carbon price increases and generators are prematurely retired. Asset value losses will require government owners to inject further equity to their companies while for the private sector, in addition to the likely equity call, refinancing will be made very difficult as their commercial fundamentals are challenged. [228]

> … the legislation needs to adequately address the stranding of coal-fired generation assets. Just eight or nine out of the 31 baseload coal-fired power stations will receive assistance. These are the power stations that the community depends on to deliver energy security that we take for granted. Even fewer will be eligible for closure payments. This could only be rectified by increasing the quantum of assistance that will be provided to coal-fired generators and to address the impacts on existing

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[226] Mr Temay Rigzin, Acting Policy Development Manager, Energy Supply Association of Australia, Committee Hansard, 27 September 2011, p. 9.

[227] Ms Clare Savage, Acting Chief Executive officer, Energy Supply Association of Australia, Committee Hansard, 27 September 2011, p. 10.

[228] Energy Supply Association of Australia, *Submission 1,* p. 6.

> investments and minimise the costs of future energy requirements.[229]
>
> … not all electricity generators that bear a significant asset value loss are eligible for the scheme. It is estimated from Treasury modelling that NSW and Queensland coal-fired generators that will not receive any compensation could suffer a combined loss of $5-6 billion in asset value. [230]

Evidence was also presented that the timing of payments required of electricity generators under this model will likely add to the price impacts on electricity services, potentially up to 15 per cent for large users:

> I would like to focus on the second issue I mentioned, which is working capital and permit auction design. Electricity contracting, which is usually at least three to five years in advance, is a critical feature of the national electricity market, to manage risk and uncertainty around potentially volatile spot prices. As carbon units will be a significant cost in energy production going forward, the energy industry will need to secure prices for emission permits years before it can commit to sell electricity or gas, both in the current year and in future years under forward contracts.
>
> As set out in the government's own investment reference group report, generators will need to hold positions well in excess of $10 billion—more than $4 billion worth of units to comply with current-year obligations and positions on a further $6 billion worth of units to support forward electricity contracting. Generators will not have the cash flows to settle permit contracts years in advance of when they receive their revenues and when the emission liability actually occurs. Generators may be unable to lock in a future price for carbon and will be therefore unwilling to continue to offer fixed-price forward electricity contracts.
>
> ESAA has contracted ACIL Tasman to undertake a quantitative study of the likely impact of the reduced levels of electricity contracting on electricity prices, and the results are striking. Even just a five per cent reduction in electricity contracting could result in at least a 10 per cent increase in a single year for small end users. That could be up to a 15 per cent increase for large users. This is the same level of price increase the Treasury forecasts from

[229] Ms Clare Savage, Acting Chief Executive officer, Energy Supply Association of Australia, Committee Hansard, 27 September 2011, p. 7.

[230] Australian Industry Greenhouse Network (AIGN), *Submission 33*, p. 4.

> the carbon price itself, and we could see that in addition to the carbon price in just a single year. If contracting were to unwind further than that, prices could increase by even double or four times this. The market is also forecast to be significantly more volatile.[231]

> Currently, probably about 80 to 85 per cent of energy in the electricity market is contracted. The reason for that is the spot market can be quite volatile. So it provides almost a hedge arrangement in the way the wholesale market operates. We asked them to reduce contracting by five per cent. Under that scenario, retail electricity prices increased in a single year by around 10 per cent for small users and about 15 per cent for large users. We asked them to do that because our view is that if you are forced to pay for your permits up-front, and certainly the government's proposal through this legislation is that they will seek their cash up-front and in the door for permits that are three to five years in advance, generators will have to back away from some of their electricity contracting because they will not be able to afford to lock in a price for carbon, which would make them unable to lock in a price for electricity.[232]

> 'Compensated forever' does not read well when an $18 billion impost has added to it a $1.7 billion increase in fuel tax, to make up about $18 billion, and has subtracted from it $1.3 billion to leave an impost of $16.9 billion. One has difficulty with the idea that the industry is being assisted.[233]

As is canvassed elsewhere in this report, the impact of electricity prices is all pervasive throughout the economy. This point was highlighted by the Australian Chamber of Commerce and Industry:

> Our members in different sectors, such as plastics and chemicals, food processing and the metal sector, have actually done our own work where we actually used the Treasury's electricity price impact, which we believe is understated, and fed that through our

[231] Ms Clare Savage, Acting Chief Executive officer, Energy Supply Association of Australia, Committee Hansard, 27 September 2011, pp. 7-8.

[232] Ms Clare Savage, Acting Chief Executive officer, Energy Supply Association of Australia, Committee Hansard, 27 September 2011, p. 9.

[233] Mr John Harry Pegler, Chairman, Australian Coal Association, Committee Hansard, 27 September 2011, p. 68.

> own financial models. It shows a substantial fall in the profitability of those particular enterprises.[234]

It won't just be coal-fired power generation that will be hit by the carbon tax, but coal mining itself will also bear the cost. The importance of coal mining as an export industry was brought to the attention of the inquiry:

> Black coal is Australia's second largest export, (expected to earn $55 billion in 2011-12) and underpins the security, reliability and comparative low cost of Australia's electricity supply. Our industry is a significant employer with more than 40 000 direct employees and a further 100 000 indirectly employed in companies, many of them SME's in regional Australia. [235]

However, the inquiry then received extensive evidence regarding the potential for reduced competitiveness within this key export sector:

> Our industry notes that the carbon tax is an $18 billion impost on the coal industry and it means that the industry ends up paying, under this particular construct, for about two-thirds of the estimated $25 billion worth of wealth transfer to households, renewables and agriculture. The specific exclusion of the black coal industry from qualifying for trade exposed industry status is an unjust and unfair treatment of the coal industry. That in particular is a fundamental flaw that we see in the bills which the committee is considering. The primary issue is that the carbon tax will undermine the industry's international competitiveness and that, whilst it is important to do things to make a difference, it is important not to do things that do not make a difference. So to take steps that simply take the country and its wellbeing backwards does not strike us as a useful way to go forward.[236]
>
> The industry has serious concerns about the efficiency, fairness and competitiveness impacts of the CEF legislation. The net impact of the proposed carbon tax will be to crimp coal industry jobs and investment. Because this is not a cost our coal competitors will face the outcome will have minimal impact on global emissions as coal production, and the associated jobs, will simply move offshore. [237]

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[234] Mr Greg Evans, Australian Chamber of Commerce and Industry, *Proof Committee Hansard*, Canberra, 26 September 2011, p.33.

[235] Australian Coal Association, *Submission 58*, p. 1.

[236] Mr John Harry Pegler, Chairman, Australian Coal Association, Committee Hansard, 27 September 2011, p. 64.

[237] Australian Coal Association, *Submission 58*, p. 1.

The globally competitive nature of the industry was identified, along with those countries who are key trading competitors to Australia but do not have a comparable carbon tax in place:

> Senator MILNE: Okay, but what about the externality for the coal industry to be priced? The fugitive emissions are an externality of coalmining, are they not? Should they not be included in the price?
>
> Mr Pegler: Only if you want to make sure that we give away the competitive position of Australian coal to other sources in Indonesia, South Africa, Mongolia, Mozambique, Colombia and so on and so on and so on, where none of those things are happening.[238]

The industry identified that, despite claims of energy transformation taking place in other countries, the demand for coal is expect to be strong and, if Australia loses its competitive position, the export dollars and emissions (potentially even higher emissions) will shift elsewhere:

> Senator CORMANN: Do you expect global demand for coal to reduce?
>
> Mr Pegler: No, I do not.
>
> Senator CORMANN: If it does not, as you say, but Australian coal becomes less competitive internationally because of a carbon price in Australia, outside an appropriate comprehensive global framework, and if your competitors overseas take market share from you and if, as you say, global demand for coal does not reduce, what will that do to global emissions?
>
> Mr Pegler: Under that sort of scenario, it is quite possible for there to be no impact on global emissions.
>
> Senator CORMANN: How realistic is that scenario?
>
> Mr Pegler: You could say that, if other countries do not take steps, it will swamp the impact of the things that happen in Australia.
>
> Senator CORMANN: Do you see your competitors around the world taking steps to impose a carbon tax to a level similar to what is imposed in Australia?
>
> Mr Pegler: No, I do not see our competitors around the world taking on board a structure similar to the one being put forward in Australia.

[238] Senator Christine Milne; Mr John Harry Pegler, Chairman, Australian Coal Association, Committee Hansard, 27 September 2011, p. 66.

> Senator CORMANN: To summarise—and I only get a short period of time—if you say to us that global demand for coal will stay the same—
>
> Mr Pegler: Increase, in fact.
>
> Senator CORMANN: Increase, in fact. Global demand for coal will increase. A price on carbon in Australia outside an appropriately comprehensive global agreement will make us less competitive—
>
> Mr Pegler: Correct.
>
> Senator CORMANN: than suppliers in other parts of the world. All we are really doing is shifting emissions to other parts of the world, arguably, to areas where there will be higher emissions rather than reducing global emissions. Is that not a fair comment?
>
> Mr Pegler: That is absolutely correct.[239]

Industry argued that research conducted by Treasury for the Government backed up its claims:

> the best single piece of research was done by Treasury. The 2008 modelling exercise projected that the then CPRS would reduce investment in coalmining by 13 per cent. It was not the Minerals Council or the Coal Association producing this work; the Australian government Treasury produced an assessment of the impact on investment in this country by 2020 of a very comparable model, and the impact was minus 13 per cent. Our figures were relatively similar, and that translated into 23,000 jobs across various parts of the minerals-producing and minerals-processing sector in this country. Unfortunately the 2011 Treasury modelling does not include the table which assessed the impact on investment by 2020 in particular sectors. That is a great shame for us.[240]

Suggestions for how this impact could be reduced were made, but have been ignored by the Gillard Labor Government:

> We would have said and will say anyway that we believe that two simple changes could be made to the proposed law that would have a significant impact on the trade exposed coal industry and that would also, we think, have widespread community support.

239 Senator Mathias Cormann; Mr John Harry Pegler, Chairman, Australian Coal Association, Committee Hansard, 27 September 2011, p. 67.

240 Mr Brendan Pearson, Deputy Chief Executive, Minerals Council of Australia, Committee Hansard, 27 September 2011, p. 77.

> These are: adopting a phased approach to the auctioning of emission permits for trade exposed industries; and phasing in the inclusion of coalmine fugitives in step with Australia's coal export competitors and over a time frame consistent with the development of fugitive abatement technologies from the current experimental stages to safe, reliable, deployable equipment and processes at commercial scale.[241]

Coal isn't the only energy source that will be hit by the carbon tax. Australia's LNG industry will also take a hit to their competitiveness:

> Australia's LNG projects face fierce global competition. Australia's major LNG competitors include Qatar, Indonesia, Malaysia, Trinidad & Tobago, Oman, the United Arab Emirates, Egypt, Equatorial Guinea, Nigeria, Algeria and Brunei. In the future they will include PNG and Russia and could even include the US, on their back of their enormous shale gas developments in recent years. In addition to exporting LNG, the one thing they have in common is that very few are taking any action to put an effective price on carbon and indeed, many are likely to be at the bottom of the list of countries who will be taking action in the foreseeable future. All of Australia's major LNG competitors have not taken on binding emissions reduction obligations and do not have policies that place an "effective" carbon price on their LNG exporters. This means that Australia's LNG exporters are amongst the most trade-exposed of all Australian exporters. They cannot pass increased costs on to consumers and any loss of international competitiveness would benefit Australia's international LNG competitors or suppliers of alternative, higher greenhouse gas emitting, energy sources… the carbon pricing mechanism will apply well in advance of comparable action being taken by many nations with which the LNG industry competes. In doing so, it exposes the Australian economy to higher production costs than those competitor countries that have not implemented emissions reduction policies. [242]

LPG producers also expressed their concerns about their treatment in the legislation proposed, which they say will disadvantage them compared with more emissions intensive alternatives:

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[241] Mr John Harry Pegler, Chairman, Australian Coal Association, Committee Hansard, 27 September 2011, p. 65.

[242] Australian Petroleum Production & Exploration Association Limited (APPEA*), Submission 5,* pp. 4-5.

> Mr Neilson: You are putting a cost on an industry that is not warranted and then, at the same time, you are trying to get abatement in these remote areas, which just does not make sense. You are saying that, if you are in the city on a natural gas pipeline, all those costs to the consumer are controlled by the retailer who is doing that work, but if you go outside the cities into the country areas the marketer or the person who has the supply to that area has to wear the whole cost. The costs cannot be contained—you have to pass them on.
>
> Senator BIRMINGHAM: In your submission on the exposure drafts, you have said clearly that the system proposed for the LPG and its customers is a tax, not a policy for clean energy. There have been no changes to make you change your position on that?
>
> Mr Neilson: No.[243]

The minerals, energy and mining sectors have been instrumental to Australia's recent economic success. Yet consistently they argued that the carbon tax aims to damage the very sector which helped to see Australia through the global financial crisis:

> The CEFP will add significant costs to doing business, including those in the mining and mineral exploration sector and those that service them, for little or no global environmental gain. The cost will be borne disproportionately by the mineral exploration and mining sector because companies will have little opportunity to reduce costs through alternative energy sources. [244]

The Minerals Council of Australia provided particularly detailed evidence on the proposed treatment of Australian industry under Labor's carbon tax compared with experience in other parts of the world, especially the EU:

> If there are 500 big polluters, 100 of them are mining companies. They will be paying full permit price on all of their emissions. In Europe an industrial firm which is not considered trade-exposed only has to buy 20 per cent of its permits in the first year. This is in the ninth year of their scheme. They only have to buy 70 per cent by 2020 and they by all of them only in 2027 … 72 per cent of European merchandise exports will get assistance; 20 per cent of Australian firms responsible for merchandise exports will get assistance.[245]

[243] Mr Warring Neilson, LPG Australia, *Proof Committee Hansard*, Sydney, 28 September 2011, p. 9.

[244] Association of Mining and Exploration Companies (AMEC), *Submission 8*, p. 4.

[245] Mr Brendan Pearson, Deputy Chief Executive, Minerals Council of Australia, Committee

> Many firms who are designated to get trade-exposed assistance in Australia would be better off in Europe being classified as non-trade-exposed, because in that first year trade-exposed firms in Australia on the second tier get 66 per cent of their emissions reimbursed in the form of free permits. In Europe, you start at up to 100 per cent for trade-exposed firms and those that are not considered trade exposed buy only 20 per cent of their permits. Under any of those measures, an Australian firm would be better off in Europe than they are here. Bear in mind, 43 activities in 25 Australian sectors receive assistance; 151 sectors in the EU receive assistance. So there are 125 sectors in Europe that receive assistance that do not get it in Australia.[246]
>
> I will speak for our sector: we looked at 13 commodities—top four producers and-or exporters—and we could not find a single commodity in any of those countries that was subject to a comparable carbon price. The only one we could find was coal in Poland, but as John Pegler from the Coal Association has pointed out, fugitive emissions in Europe are excluded from the coverage of that scheme. So, inevitably, production will ultimately transfer to lowest cost producers. That is not an economic proposition that is limited to the minerals sector. We produce less than 10 per cent of any commodity of the top 10 commodities, so we do not have market power; the world does not owe us a living. Production can shift from a higher emission carbon-tax-free destination. That is inevitable if we move ahead with the world's biggest carbon tax and other countries do not follow.[247]

The Council argued that there was even more reason for Australia to provide appropriate consideration to its mining sector than there is in the EU, given the different compositions of our economies:

> Mr Pearson: Services clearly play a more important role in Europe than they do in Australia. Europe has a very different economic structure. Despite the fact that Europe is less reliant on mining than manufacturing, the European Union has designated its gold industry as trade exposed and at risk of carbon leakage. It has a small iron ore business and non ferrous businesses. Despite the

Hansard, 27 September 2011, p. 74.

[246] Mr Brendan Pearson, Deputy Chief Executive, Minerals Council of Australia, Committee Hansard, 27 September 2011, p. 74.

[247] Senator Mathias Cormann; Mr Brendan Pearson, Deputy Chief Executive, Minerals Council of Australia, Committee Hansard, 27 September 2011, p. 75.

> fact that Europe is less reliant than Australia on minerals and minerals processing, it has gone further to ensure that those sectors are shielded from global competition, until other countries act. In my book that is counter intuitive.
>
> Senator CORMANN: Given all of that and given the risk of shifting emissions to other parts of the world resulting in increased global emissions, it stands to reason that Australian policymakers should be more cautious in our approach as to how we structure any carbon pricing regime as part of a global agreement than they have been in Europe. The risk for us is higher than the risk for Europe, yet Europe, on the face of it, is way more cautious given what is proposed here in Australia, when really it should be the other way around, shouldn't it?
>
> Mr Pearson: I would have thought it made sense for Australia to at least shape our scheme around the same sorts of protections that the European scheme has. The European scheme is not perfect but it has certainly taken much greater care to transition its industry sectors to protect them until other countries act. According to their climate commissioner, who was here recently, it has been effective. They have had a carbon market established since 2005 with minimal tax raised, but the carbon market functions.[248]

Even the CFMEU, whose ignorance of their members concerns is addressed in section 2 of this report acknowledged that overseas mines which compete with the employers of their members do not face a carbon tax on their fugitive emissions, as is proposed under Labor's plans for Australia.[249]

Again, the risk of not just carbon leakage, but transference of production to countries with an even higher emissions profile was considered a real one:

> Senator CORMANN: If we indirectly make overseas producers more competitive than equivalent producers in Australia, is all we are doing shifting the problem to other parts of the world, arguably into areas where the problem is going to be bigger than it would have been in Australia?
>
> Mr Pearson: Even some of the coal produced, for example, in other countries is a higher ash, higher emissions intensive product and so the impact is twofold.[250]

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248 Senator Mathias Cormann; Mr Brendan Pearson, Deputy Chief Executive, Minerals Council of Australia, Committee Hansard, 27 September 2011, p. 75.

249 Mr Tony Maher, CFMEU, *Proof Committee Hansard*, Sydney, 28 September 2011, p. 6.

250 Senator Mathias Cormann; Mr Brendan Pearson, Deputy Chief Executive, Minerals Council of

The potential impact on the industry wasn't only acknowledged by the industry bodies themselves; the potential reduction in future jobs in some regions and some parts of the mining industry was also acknowledged by other witnesses:

> The Minerals Council of Australia put out some work with respect to the emissions trading system which I think was technically very good work. That was in 2008-09. They have agreed essentially, publicly, with those projections in the most recent debate and have used a figure of 23,510 job losses from the mining sector over that 10-year period after which the ETS was going to operate.[251]

The Law Council of Australia also highlighted the confused and uneven treatment under the carbon tax of different business ownership structures, which risks presenting yet another impediment to ongoing investment in the critical mining sector:

> Nearly any mining enterprise in Australia will generally be set up as an unincorporated joint venture, so you might have three joint venturers operating together. However, typically they will delegate the operation of the mine to another party—it could be a joint venturer, it could be a related party of the joint venturer or it could be a third-party operator. The point is that under the legislation it will typically be the operator who assumes 100 per cent of the carbon liability. It is the entity that has to go out and purchase the carbon units and surrender them. The bill has a provision under which that operator, with the agreement of three joint venturers, can actually have the liability transferred from the operator to each of the joint venturers in proportion to their joint-venture interests, so a 10 per cent joint venturer would be liable for 10 per cent of the emissions. That does not apply where the structure adopted is a partnership. Partnerships are also very common in the energy and mining industries. For example, a number of the power stations in the Latrobe Valley are actually owned by partnerships, not unincorporated joint ventures. Therefore, there is a distortion in the treatment of carbon liability for unincorporated joint ventures and partnerships, which to all intents and purposes economically speaking are much the same.[252]

Australia, Committee Hansard, 27 September 2011, p. 75.

[251] Professor Bruce Chapman, Crawford School of Economics and Government, Australian National University, *Proof Committee Hansard*, Canberra, 26 September 2011, p. 18.

[252] Mr Grant Anderson, Law Council of Australia, *Proof Committee Hansard*, Canberra, 26 September 2011, p. 49.

> The next issue in terms of joint-venture interests is that the bill does not make it clear where the joint-venture interests change over a year within the same joint venture how the carbon liability is to be borne by each of those joint venturers. It is not uncommon to have joint-venture interests undergo realignment—for example, where one joint venturer defaults, typically the other joint venturers will pick up that entity's interests. The bill is unclear as to how the joint venturers calculate their carbon liability in that case. That would be an area we suggest needs some fine tuning and clarification.[253]

The inquiry heard that emerging sectors faced particular challenges under the carbon tax, such as the magnetite sector:

> … we add value in Australia to what are otherwise unsaleable ore bodies in order to produce a high-value product. We have been in dialogue with the government on the design of the carbon tax and its predecessor, the CPRS, for a considerable time but, to be frank, it just seems that that is falling on deaf ears. Whilst it finally seems that we might be getting some sort of support, we do not know the form of that. At the moment, as it stands, our industry looks as though it will get nothing.
>
> Our industry is emerging. It is a growth industry and it ticks a lot of boxes. On a global basis it reduces CO2 emissions from steel making, so it is making cleaner steel products using magnetite as feedstock. The value-adding in Australia is processing poor-quality ore produced to high-purity concentrate and, whilst we have a lot of energy in Australia, the net benefits to the globe are proven. The industry also creates long-term jobs and investment in rural and regional Australia. Many of our projects have a project life in the decades, if not in the centuries.
>
> Selected MagNet member projects in Western Australia alone represent an initial capital investment of some $18 billion, an estimated $9.5 billion in annual export revenue, more than 12,000 direct construction jobs and direct permanent jobs for more than 4 000 Australians. [254]
>
> The punitive domestic carbon tax is a disincentive to investment. We are not talking about government handouts; we are talking

[253] Mr Grant Anderson, Law Council of Australia, *Proof Committee Hansard*, Canberra, 26 September 2011, p. 49.

[254] MagNet- Magnetite Network, *Submission 57*, p. 1.

> about setting policies that avoid perverse outcomes that penalise an important industry like this. We are developing and have pretty good investment decisions at the moment, and there is a fair bit of uncertainty around the carbon tax that is hampering that.[255]

As with the Coal Association, it seems the magnetite industry have proposed alternatives to government that go some way to addressing their concerns, which to date the Labor Government appear to have ignored:

> … what we propose is that there needs to be a separate activity definition for what we call ultrafine magnetite concentrate. That would enable some certainty for all of these new projects around the fact that there would be a provision. Otherwise, we are left to some, frankly, very vague provisions…[256]

This is creating uncertainty and is already having an impact on investment:

> One of our members, Atlas Iron, has gone on the record in relation to investment uncertainty around its magnetite projects and an investor who withdrew from negotiations—I believe that was the term that was used—over both the carbon tax and the minerals resource rent tax and the uncertainty surrounding those two matters.[257]

And if not rectified soon they believe Australia will lose the opportunity to capitalise on this emerging industry sector:

> We are seeing massive expansion in places like Brazil and West Africa. We are arguing that there is a kind of a window to get these capital investment decisions made here in Australia now, bearing in mind that it takes four to five years to get these projects constructed before they can export. So, whilst we say there will be more global supply, the critical issue for Australia is to ensure that there is a pipeline of projects under construction here so that, when there is extra supply, we will be well and truly a part of that global market. I think it is pretty clear that the Chinese steel mills, being such a big percentage of the demand globally, would like to see greater diversity of supply, and this is Australia's big chance to

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[255] Mr Bill Mackenzie, Magnetite Network, *Proof Committee Hansard*, Sydney, 28 September 2011, p. 48.

[256] Ms Megan Anwyl, Magnetite Network, *Proof Committee Hansard*, Sydney, 28 September 2011, p. 49.

[257] Mr Bill Mackenzie, Magnetite Network, *Proof Committee Hansard*, Sydney, 28 September 2011, pp. 50-51.

> provide that diversity of supply, but that is not something that will always be possible in the future.[258]

It may be more established, but the chemical lime industry also reported an uncertain future under the carbon tax to the inquiry:

> Lime is a very diverse chemical. It is widely used in manufacturing areas such as steel production, aluminium, paper, water quality, air quality areas and construction materials. We are a regionally based industry. We have 20 operating sites in Australia—a lot of plant. Plant is located for longevity, so 30, 50, 100 years existence. We are capital intensive, greenhouse intensive, energy intensive and technically intensive.[259]

The treatment of process emissions poses a particular problem to this and other industries:

> Fifty-six per cent of our emissions come from the raw material that we use to make lime, so we do not have an option as to how we can reduce those emissions. One of our points today will be about process emissions. Thirty-nine per cent of the emissions are in the stationary energy sector, through fuelling kilns in order to produce lime. Four per cent comes from electricity and about one per cent from transport energy.
>
> Process emissions, which come from the conversion of calcium carbonate into calcium oxide, therefore emitting carbon dioxide, have no relationship to energy or energy efficiency. There is nothing we can do specifically to address those process changes. That is part of the cake mix, if you like. It would be like trying to take flour out of a cake mix. The industry therefore sees the impost of a carbon price on those emissions as not being productive in terms of reducing Australia's greenhouse footprint, contributing to any of the objectives of this scheme.[260]

Industry argued that these emissions are unavoidable:

> Process emissions come from taking the absolute and only raw material and converting it into the product, and unless someone comes up with another raw material for making lime there is

[258] Ms Megan Anwyl, Magnetite Network, *Proof Committee Hansard*, Sydney, 28 September 2011, p. 52.

[259] Mrs Roslyn DeGaris, Chief Executive officer, National Lime Association of Australia, Committee Hansard, 27 September 2011, p. 18.

[260] Mrs Roslyn DeGaris, Chief Executive officer, National Lime Association of Australia, Committee Hansard, 27 September 2011, p. 18.

> nothing we can do about the cake mix. We can do things about energy, and we are doing things about energy—there is enormous investment in the industry into making energy efficiency—because that is the element that keeps competitiveness with imports out.[261]

They further highlighted this problem through reference to the EU scheme:

> when it comes to investing in a kiln, we buy that technology from Europe. I think it is worth noting that after six years or whatever it is of the European scheme being in place, we are not seeing any new technology in lime production coming through from Europe. There is nothing that is going to provide us with a stepped change to our emissions.[262]

Associated with the problems faced by the industry under the carbon tax, they point to the limited activity definition applied to their production and therefore the extent of compensation available, as well as the decaying of that compensation over time:

> The lime industry will receive 94.5 per cent. It is across only the kiln operation, so it does not include the winning and excavation of material into the process and it does not include any downstream processing of lime. We still have a degree of debate currently with the department over what is and is not included. For example, there is one process that we have that we believe should be part of that calculation for assistance. That is currently being discussed with the expert advisory panel. The 94.5 per cent will of course decay at 1.3 per cent during the course of the following years and that is of serious concern to the industry. We are very much lineball with imports. It does not take much of an import to actually knock off the industry. What you need to understand is that you can run a kiln process on or you can turn it off; there is no in between time. So even if imports take over a portion—10 or 20 per cent of that production—you lose the capacity of the kiln that makes it economic to continue, so you need to shut the process down, and that will change the industry significantly.[263]

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[261] Mrs Roslyn DeGaris, Chief Executive officer, National Lime Association of Australia, Committee Hansard, 27 September 2011, p. 19.

[262] Mrs Roslyn DeGaris, Chief Executive officer, National Lime Association of Australia, Committee Hansard, 27 September 2011, p. 19.

[263] Mrs Roslyn DeGaris, Chief Executive officer, National Lime Association of Australia, Committee Hansard, 27 September 2011, p. 22.

The administrative requirements of the carbon tax scheme were also described as "quite taxing"[264] while other features of the legislation were highlighted as creating great uncertainty:

> The CEF is described in 3 stages implemented over 7 years. In the first stage 3 comprehensive reviews by the Productivity Commission will influence the CEF's direction and conditions. This places EITE industry with no more than 5 years of assistance certainty and even less certainty in the scope of the overall scheme. The Lime industry is capital intensive and has long associations with its location and technology. 3 to 5 year horizons are short term planning insufficient for business investment certainty. The CEF legislation in draft and without regulations 9 months before the program start has seriously jeopardised 2012 budgets for the industry and gives no time for systems to be implemented to manage the complexity and impact of the change. [265]
>
> We have also struggled with the extensiveness with which the bill changes the way our accounting methods have to operate, and that means that we are basically across all areas of the business structure in terms of change. Given that the regulations for managing this bill are not going to be through until March next year, this is a great area of uncertainty for our industry.[266]

Unsurprisingly, this causes a significant impact to the lime industries competitiveness, with the industry already having recent, firsthand experience of its trade exposure:

> Senator CORMANN: With the carbon tax as it is proposed, how will that position your industry from an international competitiveness point of view?
>
> Mrs DeGaris: Until December 2009 the industry had always provided for the needs of Australia's lime market. When in 2009 it looked as if the CPRS was going to go through we immediately saw an import established in Western Australia—in your state, Senator Cormann—and that has severely knocked the industry around in Western Australia. The establishment of imports from the Thai company came within three months. They came across

[264] Mrs Roslyn DeGaris, Chief Executive officer, National Lime Association of Australia, Committee Hansard, 27 September 2011, p. 18.

[265] National Lime Association, *Submission 4*, p. 4.

[266] Mrs Roslyn DeGaris, Chief Executive officer, National Lime Association of Australia, Committee Hansard, 27 September 2011, p. 18.

> and did a trade visit around Western Australia and the Northern Territory and within three months had established for themselves a footprint for using our own infrastructure to supply the mining industry and so on. So it was very, very quick.
>
> Senator CORMANN: What is the emissions intensity of your competitors, to the extent that the carbon tax in Australia makes your competitors overseas more competitive and helps them take market share away from your members here in Australia? What is the emissions intensity of your competitors overseas? Is it possible that emissions would actually end up being higher rather than lower, assuming that demand for lime and so on would stay the same?
>
> Mrs DeGaris: We have done a study on that, and the Australian footprint for emissions is lower than our competitors' internationally when looked at country for country. You can certainly find a plant and compare plant with plant, but if you look at the country emissions versus the country emissions we are competitive here in Australia in terms of carbon leakage. Movement of product to be manufactured overseas would certainly increase the country's footprint.
>
> Senator CORMANN: So, to the extent that overseas competitors take market share away from you, not only will it result in a reduction in economic activity in Australia but it will actually lead to an increase in global emissions?
>
> Mrs DeGaris: Yes.[267]

Experts from the Australian National University agreed that process emissions needed special treatment to minimise the risk to industries:

> That is right. You are picking a product where there is a lot of process emissions that do not differ a lot between countries. That is a perfect example of a product where, in the transition to a more uniform international system of mitigation, you would be putting in place safeguards to avoid unnecessary or counter-productive relocation of industries.[268]

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[267] Senator Mathias Cormann; Mrs Roslyn DeGaris, Chief Executive officer, National Lime Association of Australia, Committee Hansard, 27 September 2011, p. 20.

[268] Dr Frank Jotzo, Crawford School of Economics and Government, Australian National University, *Proof Committee Hansard*, Canberra, 26 September 2011, p. 24.

Lime is of course a key input to the cement industry, which will equally be hit on all fronts by rising lime and input price rises, increased transport costs, the carbon tax applying to process emissions and soaring electricity charges:

> The Australian cement industry recognises the threat that climate change poses to our natural environment. We have been working diligently on this challenge for well over a decade and have developed and maintained a verifiable emissions database extending back to 1990. Since that time the industry has maintained carbon dioxide emissions at 108% of 1990 levels while increasing production by 40% and reduced the carbon intensity of its product by 24% per tonne.[269]
>
> Based on the current details included in the proposed *Clean Energy Future Package (CEF) …* Australian cement manufacturers will be required to assess whether to produce cement locally, to import clinker for cement milling in Australia or to import cement. This decision will be made based on their overall competitive position relative to imports, including their ability to pay the proposed carbon liability. In the long run cement closures will occur, thus exporting jobs without changing global emissions unless our Asian competitors introduce a similar carbon price.
>
> Emissions Intensive Trade Exposed (EITE) 'free permits' for Australian cement manufacturing are proposed to be limited to clinker production and will exclude cement milling. As a result, only 86 per cent of cement CO2 emissions will be covered by 'free permits' in July 2012, with the clinker component declining annually at a rate of 1.3 per cent (known as the 'carbon productivity factor').
>
> While the industry can understand the reasoning for a 'carbon productivity factor', the one size fits all approach makes no recognition of the fact that 50 per cent of the emissions from cement manufacturing cannot possibly be avoided as they are produced as a result of a chemical process in changing limestone to first stage of cement production, known as clinker. This will mean that carbon reductions from the remaining part of the cement manufacturing process must be found at twice the rate compared to other EITE affected industries.

[269] Australian Industry Greenhouse Network (AIGN), *Submission 33*, p. 4.

> Based on current estimates, cement manufacturing net profits will decline by approximately 22 per cent by 2020 as a result of the Clean Energy Future Package. [270]

Again, the industry highlighted the different treatment of their product in other countries:

> No other country's cement sector will be left exposed as the Australian cement industry … New Zealand's cement industry definition covers both clinker and cement (this will become very important as Australia changes to an ETS in 2015 with the potential to link schemes through forums such as the Australian-New Zealand Closer Economic Relations (NZCER) … The European Union has provided free permits to domestic cement companies that will protect it from the true impact of a carbon price for many years … The California Government has halved the decay rate of free permit allocation for the cement sector (meaning that the level of support over time is higher for cement compared to all other commodities). [271]

This again highlights just how far in front Australia is getting with its carbon pricing scheme compared to any other proposal around the world.

It's not just mining or heavy industry that will be under threat thanks to the carbon tax, nor the other industries or groups identified elsewhere in this report, but large service providers also face the potential for huge impacts. Bond University claimed in a submission to the inquiry that it will face significant new costs:

> Bond University has estimated the impact of the proposed carbon tax on the University. It will affect Bond both directly and indirectly. It will directly affect Bond when we exceed the threshold (which we expect will be in 2012/13), approximately costing initially between $650,000 and $760,000 in direct costs at the price of $23 per tonne. In addition Bond will be affected by the indirect costs which include the increases in electricity, travel and wages which we estimate will cost an additional total of $1.3 million, leaving Bond with a total impact on the bottom line of $2 million per annum. [272]

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[270] Cement Industry Federation, *Submission 32*, p. 2.

[271] Cement Industry Federation, *Submission 32*, pp. 4, 7.

[272] Bond University, *Submission 23*, p. 1.

> Bond's expenditure comprises around 0.7% of sector expenditure. If we were to scale up Bond's estimated proposed carbon tax impact of $2 million per year to the sector level, this means we would have a sector wide impact of the proposed carbon tax in the range of $200-300 million. [273]

Bond University identified two options it would have to consider if these costs of the carbon tax materialise over the coming years: either increase revenue by raising fees or reduce costs through a reduction of staff. [274] Both, ultimately, have a negative impact on students.

It seems that wherever anyone turns, the carbon tax will have an impact.

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[273] Bond University, *Submission 23*, p. 1.

[274] Bond University, *Submission 23*, p. 4.

9. Crippling competitiveness

Industry assistance neither adequate nor guaranteed

Labor has made much of their own claims that assistance for industry will preserve competitiveness and protect jobs. Those whose businesses will be directly affected are not convinced:

> The fixed carbon prices within the policy are unnecessarily high and disruptive, and are out of step with current international carbon prices … The grants package for manufacturers, while welcome, does not address the up-front cost impact that businesses will face before energy efficiency and emissions reduction projects can bear fruit. These transitional impacts are severe in some cases, particularly where industries fall short of the thresholds for the Jobs and Competitiveness Program (JCP)… [275]

Alarmingly for the small number of businesses who have been promised some assistance so as to partially offset the impact of the carbon tax on their viability of competitiveness it seems that such assistance is far from guaranteed and is actually dependent on the political priorities of the government of the day. In a move which can only add to uncertainty for business, the Department of Climate Change and Energy Efficiency has confirmed that industry assistance may have to be traded reduced if government promises of continued consumer assistance are to be met from within the budget:

> Senator BIRMINGHAM: Can the fiscal impact of keeping compensation measures to households up with the adjustments in the carbon price be met purely from within the government's revenue stream from the sale of permits?
>
> Mr Comley: It depends what happens with other elements of the package. I do not think I could go into a hypothetical discussion of what may or may not change in the second half of the decade or beyond.
>
> Senator BIRMINGHAM: So to meet it within the government's income stream you may have to reduce industry assistance further to be able to pay for household compensation?

[275] Australian Industry Group, *Submission 2*, p. 2.

> Mr Comley: Not necessarily, except for those elements of industry assistance that have already been preannounced will cease. For example, there is the Energy Security Fund effectively over six years that will cease and will no longer be a call on funds after the first five-year period, but there could be other elements of the package that change over that time frame.
>
> Senator BIRMINGHAM: In terms of the work you have done as to what could happen beyond the forward estimates, you are relying upon the expiration of programs that have been announced to date to fund by any means the upkeep of household compensation?
>
> Mr Comley: Not necessarily. I just pointed to one that is actually quite significant—in the order of $1 billion a year—and programmed to end because it is a one-off transitional assistance fund. How a government would deal with any assistance beyond that period would be more speculative.[276]

This uncertainty for industry is exacerbated by a number of the mechanisms contained within the carbon tax bills:

> The extensive, almost continuous review processes create a large degree of uncertainty and risk. This does not provide industry with certainty regarding policy direction to allow for investment in lower emissions technologies. The current proposal creates further uncertainty and transfers the risk to industry because it can be reasonably foreseen that there may be delays or complexity in the Productivity Commission assessing any comparable price on carbon being placed on foreign competitors. [277]
>
> Leaving clause 156(3) as currently drafted dilutes what has been communicated as a certain part of the policy, to something that is simply a possibility. This forces the emissions-intensive trade exposed sector to carry all the risk; including for Government delays, difficulties in assessing other countries' policies and changes in interpretation. This is not reasonable, particularly given that all those factors are outside the control of the emissions-intensive trade-exposed sector. It should be noted that this is more than a simple hypothetical scenario. Given the current state of international progress in implementing carbon costs, it is highly likely that in 2015 many industries will be facing the situation that

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[276] Senator Simon Birmingham; Mr Blair Comley, Secretary, Department of Climate Change and Energy Efficiency, Committee Hansard, 21 September 2011, p. 22.

[277] CSR Limited, *Submission 20*, pp. 2-3.

> less than 70% of their competitors are paying a comparable carbon cost. [278]

> For trade-exposed industry, the Jobs and Competitiveness Program (JCP) introduces a range of new uncertainties that may restrict investment in abatement and new production… It is proposed that the Productivity Commission will review the JCP three times in five years between 2014 and 2018. The PC has the scope to recommend a complete recasting of the JCP scheme and radical changes to the treatment of individual activities, the prospect of which is likely to undermine the business case for any investment in emission reduction in JCP industries in the next five years. [279]

Others already know that the so-called assistance they may receive is likely to decline and be eroded over time, regardless of how emissions intensive or trade exposed their industry remains into the future:

> This limited and declining assistance fails to secure the ongoing competitiveness of Australian LNG. It also fails to recognise that the exposure of Australian LNG does not decline gradually year on year; rather it is linked to Australia‟ s LNG competitors adopting similar carbon costs.[280]

Some sectors fear that although they may not meet the original definitions required to receive assistance the failure to do so may see them become increasingly exposed very quickly:

> Other sectors may become increasingly trade exposed, in part as a result of carbon pricing and should be eligible for assistance when this occurs. Therefore the CEF needs to address sector specific needs rather than arbitrary cut-offs. The insulation industry is a case in point. CSR's insulation business, Bradford Insulation is trade exposed but because the CEF does not address sector specific needs and includes arbitrary cut-offs, this business will receive no transitional assistance. [281]

While in the short term the Government is committed to providing some assistance to some industries, the unavoidable fact remains that many businesses

[278] Australian Aluminium Council Limited, *Submission 24*, p. 2.

[279] Australian Industry Greenhouse Network (AIGN) , *Submission 33*, p. 3.

[280] Australian Petroleum Production & Exploration Association Limited (APPEA), *Submission 5*, p. 6.

[281] CSR Limited, *Submission 20*, p. 2.

will not receive any compensation while their competitors face no similar or comparable cost on emissions incurred as a result of doing normal business:

> … when we look at our trade competitors—not our trade partners but our trade competitors: countries such as Brazil, Canada, South Africa and, to some extent, the USA—we cannot see any movement by them towards an international agreement. Our fundamental view is that if we move unilaterally and not in concert with, in particular, our trade competitors, then we are going to be at a substantial economic disadvantage.[282]

With competitors not facing a carbon cost, businesses know that they are going to take a hit to their competitiveness on international markets and jobs. The already struggling manufacturing sector will particularly be under threat:

> Mr Evans: You can hardly see that a tax would make us more competitive. In the economic circumstances in Australia at the moment, we are seeing job shedding in manufacturing. We have lost 100,000 jobs over the last one to two years. There are now under one million people employed directly in manufacturing. A carbon tax will only contribute to the loss of jobs in that sector.
>
> Senator CORMANN: Treasury modelling shows a reduction in real wages compared to business as usual. How realistic is it that unions and employees across Australia will accept a reduction in real wages while facing increases in the cost of living as a result of the carbon tax?
>
> Mr Evans: We find it very hard to understand why union leadership would be promoting a carbon tax, because it is unambiguously bad for Australian jobs and it is unambiguously bad for their members. So we are in a position where it is left to the business community to stand up for their employees and their workforces in terms of trying to promote the competitiveness of those businesses and security of employment.[283]

With the high Australian dollar, global financial markets in turmoil and the risk of another downturn many witnesses and submitters argued that this is the worst possible time to be adding another burden on Australian businesses, especially one not faced by competitors. They argue that it is just making a difficult situation worse:

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[282] Mr Greg Evans, Australian Chamber of Commerce and Industry, *Proof Committee Hansard*, Canberra, 26 September 2011, p. 31.

[283] Mr Greg Evans, Australian Chamber of Commerce and Industry, *Proof Committee Hansard*, Canberra, 26 September 2011, p. 32.

> … only last week we released the ACCI-Westpac Survey of Industrial Trends—at 50 years, the oldest business survey in Australia right now. It surveys the circumstances of manufacturers. From that survey it is clear that the overwhelming view of respondents is that business and consumer confidence is at a low level—the lowest it has been since the GFC. They are concerned about international circumstances, but one of the other responses was that they are very concerned about the domestic situation as well. Without prompting they mentioned that the carbon tax was having a negative impact on confidence in their business and contributing substantially to uncertainty. These are manufacturers—the most exposed people to the carbon tax. They can see that not only will they have higher energy prices but many of their imports will go up in price as well. That uncertainty is plaguing them at the moment. Our concern is why you would want to impose an additional tax on top of all the other competitive pressures that they are facing at the moment.[284]

> The high A$ is already hurting our exports and this tax will make it even more difficult for many of these businesses to continue to export. The loss of exports will in many cases reduce production volumes and so increase unit production standard costs with the inevitable result that many businesses will no longer be able to compete and be forced to close their doors and throw hard working Australians out of work into a job market of diminishing opportunities.[285]

Even advocates of the carbon tax bills, such as the Investor Group on Climate Change, accepted that if Australia undertaking actions that increase the disparity of returns between Australia and overseas that will influence investment decisions. [286] Other witnesses also felt strongly that the lack of similar global action will cost Australian business dearly and will make Australia a less attractive investment location, depriving future generations of economic opportunities:

> … the issue is not that we as the magnetite industry are opposed to being part of a global carbon trading system—in fact, far from it because of the clear benefits in life cycle that come from our product. However, at the moment, because this tax is being

[284] Mr Greg Evans, Australian Chamber of Commerce and Industry, *Proof Committee Hansard*, Canberra, 26 September 2011, p. 32.

[285] Mr Bruce Wheeler, unaccepted submission, received 18 September 2011, 1.54PM.

[286] Mr Nathan Fabian, Investor Group on Climate Change, *Proof Committee Hansard*, Sydney, 28 September 2011, p. 14.

> imposed unilaterally in Australia that has the unintended consequence of reducing the amount of capital that is going to come to Australia to develop this industry…[287]

There was also concern that the Government is demonstrating a fundamental lack of understanding of the Australian economy and our role in the global supply chain:

> I think that we have to understand for what purpose our emissions are being generated. Thirty-three per cent of Australia's emissions are embedded in our exports. In other words, other countries have said, 'We do not have the resources endowment or the land to produce beef, gold, nickel, coal or iron ore but Australia does. So we will subcontract you, Australia, to produce those goods.' Through the act of subcontracting Australia to do it, their emissions are lower, because they do not have to produce all of those products within their national boundaries. So, in the world division of labour, Australia performs that task. We have a comparative advantage do so. That is why, as I said, 33 per cent of our emissions are embodied in exports. The comparable figure in the United States is about eight per cent.
>
> The effect of that is to exaggerate Australia's emissions per capita and to artificially lower the emissions per capita in the country of purchase. Belgium has lower emissions because it imports Australian beef, which emits methane. Counting emissions by where they are produced is a far inferior option to counting emissions where they are consumed. We would be much better off if the international and national debates focused on that and not on this very artificial 'Australia is bad because it performs a task for others.'[288]
>
> …the scheme will inevitably hinder investment and jobs growth in Australia without meaningfully reducing global carbon emissions. It will undermine Australia's international competitiveness and hurt the nation's export-competing industries. [289]

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[287] Mr Bill Mackenzie, Magnetite Network, *Proof Committee Hansard*, Sydney, 28 September 2011, p. 52.

[288] Mr Brendan Pearson, Deputy Chief Executive, Minerals Council of Australia, Committee Hansard, 27 September 2011, p. 76.

[289] Rio Tinto, *Submission 29*, p. 1.

Even with regard to the interaction of this new tax with other parts of the tax system the carbon tax appears to have been ill thought out, with the Law Council of Australia suggesting that:

> … the Package requires amendment [regarding] the taxation treatment of those who hold emission units. Those provisions create tax liability for holders of units in ways which contradict the fundamental principles underpinning the income tax and GST legislation, in that they, among other things:
>
> Tax the increase in value of an emission unit over a year, when it has not been sold or otherwise disposed of, and
>
> Treat the moving of international units into Australia, where ownership does not change, as a sale for CGT purposes.
>
> (a) is no different from taxing the owners of shares on the ASX on the increase in value of the shares each year. Such a provision applied to shares would see the owners having to pay tax each year the shares increased in value, even if they never sold the shares.
>
> (b) Appears intended to penalise those who seek to bring international units to Australia to satisfy their liability and act as a deterrent to doing so.
>
> Both types of provision appear to have as their objective allowing the government to profit from the increase in value of units held by industry. Not only will the government receive the initial price of a unit when sold or auctioned, but it will also participate (at the expense of the holder of the unit) in any subsequent increase in value of the unit.
>
> The irony is that if the unit increases in value, then so too must the quantum of liability it has been acquired to satisfy so there is no net gain to the holder of the unit – but he or she will nonetheless be taxed on the notional increase in value of both the unit and the liability. [290]

Despite what the Labor Government clearly thinks, Australians aren't fools. Vast numbers of the thousands of submissions unpublished by this inquiry highlighted the crippling competitiveness the carbon tax could have on the competitiveness of Australian businesses and industry. Australians know this tax is bad for business and reducing the competitiveness of business is bad for all Australians:

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[290] Law Council of Australia, *Submission 61*, pp. 1-2.

> I am opposed to the carbon tax as I believe it will have an adverse effect on Australian industry and the people in the long run...[291]
>
> This tax will render Australian business uncompetitive and destroy our economy, it will create terrible suffering for those already struggling with day to day expenses and could also lead to bankruptcy.[292]
>
> There will be no way our Companies (such as mining, aluminium and coal) can compete in this already fiercely competitive world.[293]
>
> The increased cost of electricity flows through to everyday life and will reduce Australia's competitiveness to compete with the rest of the world. History shows that no country has created adequate growth by increasing costs above its competitors.[294]
>
> Please reject this tax as it … will have an incredible negative influence on our economy, jobs, cost of living, the building industry [steel, concrete, glass, aluminium, etc.] manufacturing, farming. Why should we have a tax that gives an advantage to the rest of the world produces over Australians?[295]
>
> Imposing greater costs on Australian businesses at this time of global economic fragility will make it harder for businesses to commit to new expansions, giving our competitors overseas a greater advantage in all industries.[296]
>
> The new carbon dioxide tax … will harm Australian jobs, will damage our exports and industry, and will unnecessarily put even more burden on the economy…[297]
>
> I am concerned as to the internationally competitiveness of Australia's business and the impact of the proposed carbon tax on that competitiveness.[298]
>
> We currently have an advantage with some of our exports, however this will soon disappear once the carbon tax is introduced and our competitor nations move in on our markets, simply due to

291 C.B. Hopkins, unaccepted submission, received 17 September 2011, 1.09PM.

292 Mr Joe Buttigieg, unaccepted submission, received 20 September 2011, 6.43PM.

293 Mrs Terrie Hancox, unaccepted submission, received 20 September 2011, 3.24PM.

294 Mr John Jordon, unaccepted submission, received 20 September 2011, 2.28PM.

295 Mr Ivor Lewis, unaccepted submission, received 19 September 2011, 5.24PM.

296 Mr and Mrs Paul and Kell Hilder, unaccepted submission, received 18 September 2011, 6.07PM.

297 Mr Ian Faust, unaccepted submission, received 18 September 2011, 2.08PM.

298 Mr Martin Hovey, unaccepted submission, received 18 September 2011, 2.08PM.

> the stupid measures of a government which does not have a clue on how to handle any issue.[299]
>
> The proposed tax is the highest in the world and while something may need to be done re climate change we in Australia are a small fish in a big world and with the world economy in such a fragile state we should be looking to keep our own economy as strong as possible and not send millions or even billions of dollars overseas with carbon credits. If our coal producers and others have to pay another tax then some may become not viable but that will not stop coal from somewhere else being used instead.[300]
>
> Many businesses just will not survive and cannot compete against other countries. Small business is struggling now paying high tax and other compulsory expenses - there's not much profit left over, and in many businesses they will not be able to cope.[301]
>
> It is hard for Australia to remain competitive on an international level but by its introduction this tax would lead to a more uneven "playing field" making us less competitive and reducing employment potential.[302]

Many more people who took the time to contact this inquiry made it clear that they understand the link between global competitiveness and jobs, specifically expressing their concerns about the impact this tax on employment:

> It will have no impact on the environment but will have severe ramifications for industry, families and jobs.[303]
>
> A carbon tax will increase costs to our exporters and make us internationally uncompetitive. As a result unemployment will be adversely affected.[304]
>
> Australian produce & products will be replaced by imports and Australian people will lose our jobs as we cannot remain competitive. Producing these products overseas will consume the same energy with similar carbon dioxide and in many of these

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299 Ms Denise Sygrave, unaccepted submission, received 18 September 2011, 2.04PM.

300 Mr Ken Morrison, unaccepted submission, received 18 September 2011, 2.03PM.

301 Ms Helen James, unaccepted submission, received 17 September 2011, 2.41PM.

302 Mr John Hutchin, unaccepted submission, received 17 September 2011, 2.23PM.

303 Mr Matt Wharf, unaccepted submission, received 17 September 2011, 12.33PM.

304 Ms Jocelyn Cummings, unaccepted submission, received 20 September 2011, 5.28PM.

> countries there are much greater pollution issues into the atmosphere, waterways and deforestation.[305]
>
> I am opposed to the proposed Carbon Tax because it will rob ordinary Australians like me of our jobs and livelihood. It is a damaging tax and will make Australia even less competitive than it already is in this increasingly globalised world.[306]
>
> This … is driving up the cost of electricity and manufacturing and generally driving up the cost of business which is making us uncompetitive. It must stop as this will end many jobs.[307]
>
> I am currently working on a project for Woodside Petroleum which requires steel sections to support pipe spools carrying natural gas. Both the spools and steelwork are becoming harder and harder to source. Why? Because the mills in Wollongong have become so uncertain about their future they have laid off the very people who make it. Now when my only option is to import steel (ore mined here and exported to be value added overseas) for use on an Australian project for domestic gas use I start to worry. And it won't get any better. The proposed tax … will make conditions extremely difficult for many industries.[308]

Other Australians expressed their worries that the way in which the carbon tax will particularly drive up the price of electricity will, as a result of the pervasive nature of the costs for this near universal input cost, reduce competitiveness of business across the board:

> … it seems it is the intention of the legislation that Australian energy will no longer be cheap. This will devastate the Australian economy and make its situation completely non-competitive with relation to other countries. Only New Zealand and Europe are pressing ahead with this sort of tax. New Zealand has plenty of hydro electricity as an offsetting factor while Europe has nuclear energy. Australia alone is almost entirely dependent on fossil fuels.[309]
>
> It is ludicrous to impose the world’s highest tax on Carbon Dioxide on an economy that will … erode our international competitiveness. Australia’s competitive advantages have always

305 Mr Klaas Kamminga, unaccepted submission, received 19 September 2011, 10.04PM.

306 Yu-Seong Kong, unaccepted submission, received 18 September 2011, 10.12PM.

307 Mr Bart Ristuccia, unaccepted submission, received 18 September 2011, 7.40PM.

308 Mr David Nesbit, unaccepted submission, received 17 September 2011, 1.56PM.

309 Ms Jocelyn Maxwell, unaccepted submission, received 19 September 2011, 10.06PM.

> rested on the relatively cheap energy that abounds in this country. … It is because of this competitive advantage that we have been able to maintain high wages in the Australian economy competing with low wage countries. If the cost of energy is artificially raised by this government action then it is easy to see the competitive result on the economy. Everyone in the country will suffer despite the compensation offered because there are automatic rises in the level of tax. This course is a recipe for economic ruin. We should be playing to our economic strengths instead of trying with all our might to destroy our economic advantage. You can be sure no other nation is as willing to destroy their economy as we seem to be.[310]

Australians appreciate that jobs and investment are already under threat in the manufacturing sector, which has been in decline for years. Many Australians are worried that a carbon tax will simply accelerate this decline, costing more jobs, closing more business and shutting down this sector:

> I do not believe that Australia should have a tax on carbon. It will make us uncompetitive to the rest of the world and we are already struggling to with our manufacturing industries. Why penalise ourselves with nothing being achieved to reduce carbon dioxide in the atmosphere. Only paper shuffling with handouts and a huge bureaucracy to manage it.[311]

> The Carbon Tax/ETS will make our international manufacturing and mining products more expensive and uncompetitive, especially when there are other sources of supply readily available from our competitors, such as Canada, China, the US and Brazil. … Bluescope Steel have stated that pricing carbon risks killing off Australian manufacturing by sending steel production offshore to either Asia or North America and what hypocrisy that we should not be allowed to use cheap coal fire power when we ship it off to China and India for them to burn![312]

> It will destroy manufacturing and create massive job losses on a scale that will never be offset by any job creations in the so called "green economy". Price increases on virtually every commodity

[310] Captain Bruce Dann, unaccepted submission, received 19 September 2011, 7.10PM.
[311] Mr Ian Els, unaccepted submission, received 19 September 2011, 10.37AM.
[312] Ms Elizabeth Hamilton, unaccepted submission, received 20 September 2011, 4.53PM.

> and service will create massive hardship for the majority despite the claims by the Government of tax cuts and compensation.[313]
>
> We are already seriously disadvantaged by the value of the Australian dollar against major currencies. Following so closely behind the GFC and the effects this event has had on business within our country, the potential for business to stay competitive on world markets and shoulder an additional tax which it may not be able to pass on is a dangerous policy indeed. The loss of manufacturing businesses within this country is already at alarming proportions. Do we have to further burden those that are left by imposing yet another cost.[314]
>
> The tax will … place Australia at a serious disadvantage in economic terms with other trading nations and damage our manufacturing industries.[315]

It won't just be manufacturing jobs that the carbon tax sends offshore, Australians are also concerned that a range of carbon and energy intensive industries will become uncompetitive and move to countries where there is no carbon tax:

> Adding expense to Australian goods and services will clearly reduce our international competitiveness and lead to work being outsourced to cheaper countries.[316]
>
> I object to the tax because it is extremely detrimental to the Australian economy. It will impose the highest carbon price in the world, compromising the competitiveness of Australia's export and import competing sectors without environmental benefit. The government's own Productivity Commission has reported that without comparable measures in competitor countries, that could merely shift output and emissions to our commercial rivals.[317]
>
> High emitting industries will not cease production but merely transfer to other countries that do not require an equivalent tax or level of tax on carbon dioxide. Therefore a unilateral tax will have minimal effect on world pollution but will drive Australian manufacturing jobs off shore to other countries.[318]

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[313] Mr Jeffrey Bayliss, unaccepted submission, received 19 September 2011, 10.01PM.

[314] Mr Brendan Robertson, unaccepted submission, received 19 September 2011, 10.04PM.

[315] Mr Ross Manley, unaccepted submission, received 18 September 2011, 4.32PM.

[316] Ms Jenny Dolzadelli, unaccepted submission, received 20 September 2011, 7.45PM.

[317] Mr Roy Ford, unaccepted submission, received 18 September 2011, 5.57PM.

[318] Mr Bill Oakley, unaccepted submission, received 18 September 2011, 5.51PM.

> I do support a cleaner energy future but for Australia to introduce a carbon tax starting at $23 a tonne is much too high and will force industry to move their operations overseas where they can pollute as much as they like or they will close down.[319]

> As a resident of Geelong and a past manager of a company that supplies to the aluminium industry the effect of a carbon tax on the city will be catastrophic to industry and employment for Geelong. Alcoa will just close the Point Henry plant and start up again in Asia have they have done in the United States with the closure of many Alcoa plants. Geelong survives on Alcoa, Ford and the Shell refineries, and these three have already in place clean filter systems at their plants, that are far superior to anything that will be in place in Asia. They are already doing their part to make Australia a cleaner country without this totally unnecessary tax which will hurt families in Geelong and the rest of Australia.[320]

Indeed one submission quoted former Minister for Climate Change, Senator Penny Wong, expressing just this concern in a speech to the AIG luncheon on 6th February 2008:

> The introduction of a carbon price ahead of effective international action can lead to perverse incentives for such industries to relocate or source production offshore" and "There is no point in imposing a carbon price domestically which results in emissions and production transferring internationally for no environmental gain.[321]

Senator Wong is correct in this instance and many Australians agree with her that with no effective international action, Australia shouldn't be going it alone:

> Can you explain how the added cost of this new carbon dioxide tax is going to allow Australia to compete economically with the world markets on a level playing field when no other country, including USA is going to introduce such a high tax?[322]

> Why would we wish to place extra costs and burdens on the economy when the impact of this carbon tax will be so minuscule in world terms, and during times when the rest of the developed world is retreating from such carbon tax impositions.[323]

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[319] Mr Rob Elings, unaccepted submission, received 18 September 2011, 1.54PM.

[320] Mr Ken Wright, unaccepted submission, received 17 September 2011, 1.56PM.

[321] Mr Thomas Frew, unaccepted submission, received 18 September 2011, 1.53PM.

[322] Ms Diane Mills, unaccepted submission, received 18 September 2011, 1.51PM.

[323] Mr Steve Simpson, unaccepted submission, received 17 September 2011, 12.40PM.

It will destroy our international competitiveness, cause many firms and businesses to go broke, and destroy an enormous number of jobs in many sectors. To go this way, when our trading partners do not, is patently stupid.[324]

Most countries are not entertaining such a taxation proposal mainly because of the obvious negative economic implications. Considering the current global financial meltdown, introduction of a Carbon Tax is both irresponsible and inane. It will place Australia at risk economically and financially.[325]

Why are we being penalised while countries like China, India and the USA are forging ahead WITHOUT a tax.[326]

Why are we leading the world in this? Let us see what the US, China and India do before we disadvantage our industries even further.[327]

… the major emitters of carbon dioxide in the world, namely China and the USA have stated that they have no intention of introducing similar legislation in the near or medium future. This legislation will place an unfair burden on our economy and make us less competitive in the world market and have a negative effect on our economy. It will increase inflation, increase unemployment and increase the cost of living. This will adversely affect all Australians but especially those who are in the lower socio-economic groupings.[328]

While the rest of the world is tottering at the brink of another recession and countries are becoming isolationist and protective of their industries and economies, the Australian government sees fit to subject Australia and the Australian economy to this un-mandated, regressive, inflationary and simply unnecessary tax.[329]

The Australian economy will be damaged relative to the rest of the world at a time when economic uncertainty means that most other

[324] Dr Josepf Krivanek, unaccepted submission, received 20 September 2011, 3.08PM.

[325] Ms Jenny Holmes, unaccepted submission, received 20 September 2011, 2.07PM.

[326] Mr Nigel Cornelius, unaccepted submission, received 18 September 2011, 2.06PM.

[327] Mr and Mrs Geoff and Colleen Moule, unaccepted submission, received 18 September 2011, 2.03PM.

[328] Mr Michael Bishop, unaccepted submission, received 18 September 2011, 2.02PM.

[329] Leslie and Billie Baker, unaccepted submission, received 18 September 2011, 2.02PM.

> economies will not act in concert with regard to climate change strategies.[330]
>
> Whilst a believer that the world community has contributed to climate change, I am absolutely against Australia setting out alone to put a price on carbon; to do so in advance of the major world economies having set in place nationally co-ordinated carbon management policies, we will be severely undermining our national interest and competitiveness within international markets.[331]
>
> A Carbon Tax at this time will severely damage our economy at a time when most countries in the world are suffering economically and we are only not suffering because of the Resources boom. Our manufacturing and retail sectors are really struggling to survive. … Many industries are shedding jobs and manufacturers will move off shore as they will not be able to compete against cheap Asian labour. These countries do not have a Carbon Tax nor intend to implement one.[332]

It is clear that this carbon tax will impose a significant burden on Australian industry which our competitors do not face. It will be detrimental to competitiveness and there is no escaping that this will reduce profitability and cost jobs in small and large businesses alike, sending jobs, investment and emissions offshore leaving only a misplaced sense of green pride behind.

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330 Dr S.E. Chen, unaccepted submission, received 17 September 2011, 3.03PM.

331 Mr Robert Hobart, unaccepted submission, received 17 September 2011, 1.14PM.

332 Ms Virginia van den Heuvel, unaccepted submission, received 18 September 2011, 1.44PM.

10. Fuel + fridges = more than 500

Summary of findings

The Government continues to mislead Australians about the extent of impact of its carbon pricing mechanism or carbon tax through suggestions the impact will be restricted to around 500 companies who are the largest emitters of greenhouse gases.

It is clear from evidence provided to this inquiry that cost impacts will be borne indirectly by all Australians through costs being passed on, most notably as a result of increased power and transport costs, as discussed elsewhere in this minority report.

However, it is also clear from evidence provided that the number of companies directly affected will be far, far greater than the stated 500 as a result alone of both changed fuel rebate and excise arrangements and an 'equivalent carbon price' applied by this legislative package to synthetic greenhouse gases used in refrigerants.

500 claim

The Government has frequently claimed that around 500 companies (or entities) will be directly liable under the carbon pricing mechanism introduced by this legislative package, including throughout the Prime Minister's second reading speech on 13 September 2011. This was confirmed in evidence provided to this inquiry.

> Mrs GASH: I cannot seem to find anywhere exactly how many companies are actually going to be paying the carbon tax. I hear various reports. Can somebody clarify it for me?
>
> Mr Comley: I will let Dr Kennedy answer in a second. The government has said that around 500 are intended to be covered. It is important to make it clear that it is not as though the bill targets a number of companies; it sets a threshold of a certain number of emissions before you come into the system. So things like how the economy changes over time will impact on the number of people in the system. The current estimate is around 500.
>
> …

> Dr Kennedy: Of the around 500 business that we expect to be covered under the carbon-pricing mechanism—these are businesses that will have to acquit a liability, if you like, under that mechanism and, as we were discussing earlier with Mr Windsor, there is an effective carbon price also being applied through the fuel tax arrangements—around 60 businesses are primarily involved in electricity generation, around 100 in coal or other mining, around 40 are natural gas retailers, around 60 are primarily involved in industrial processes such as cement, chemicals and metal processing, around 50 operate in a range of other fossil fuel intensive sectors and around 190 operate in the waste disposal sector.[333]

The number of facilities or sites that will be subject to this liability remains unclear, with the Government failing to answer the following question, taken on notice, seeking this information.

> Senator BIRMINGHAM: Back to Mrs Gash's 500 companies and the facilities and sites covered within that, is there an estimate of the total number of facilities or sites that are picked up and trip the threshold within the 500 companies?
>
> Mr Comley: We will have to take that one on notice.[334]

Evidence provided to the inquiry, however, makes it clear that the number of businesses directly affected will be far greater than 500 as a result of two changes in particular – changes to fuel rebates and excise arrangements, both in these bills and forecast by the Government in 2014, and a carbon tax equivalent applied to synthetic greenhouse gases used as refrigerants. Additionally, all businesses will suffer directly increased costs of electricity and transport.

Off-road fuel

DCCEE made clear that a carbon price will apply to all off-road use of fuel.

> Dr Kennedy: On the off-road use of liquid fuels, there is an effective carbon price to be applied. In the case of aviation, it will be applied through excise adjustments. In the case of other fuels,

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333 Dr Steven Kennedy, Deputy Secretary, Department of Climate Change and Energy Efficiency, Committee Hansard, 21 September 2011, pp. 13-14.

334 Senator Simon Birmingham; Mr Blair Comley, Secretary, Department of Climate Change and Energy Efficiency, Committee Hansard, 21 September 2011, p. 15.

> fuel offset changes will apply an effective carbon price to off-road use of those fuels.[335]

Coalition members sought clarity surrounding just which industry uses would be affected

> Senator CORMANN: I am keen to get from you a list of all the things that you envisage for off-road fuel use which will have an effective carbon price imposed on them through this legislation, whether it is by implication or by explicit inclusion.
>
> Mr Gallagher: Other than those exempted industries, all other industries will be impacted.
>
> Senator CORMANN: Such as?
>
> Mr Gallagher: Mining, construction—
>
> Ms Quinn: Rail, shipping, aviation—
>
> Senator CORMANN: So, on notice, you are going to give us an exhaustive list of everything that you envisage—
>
> Mr Gallagher: Yes.[336]

The list provided is:

> Mining;
> Manufacturing;
> Electricity, gas, water and waste services;
> Construction;
> Wholesale trade;
> Retail trade;
> Accommodation and food services;
> Transport, postal and warehousing;
> Information media and telecommunications;
> Financial and insurance services;
> Rental, hiring and real estate services
> Professional, scientific and technical services;
> Administrative and support services;
> Public administration and safety;
> Education and training;
> Health care and social;

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[335] Dr Steven Kennedy, Deputy Secretary, Department of Climate Change and Energy Efficiency, Committee Hansard, 21 September 2011, p. 11.

[336] Senator Mathias Cormann; Mr John Gallagher, Unit Manager, Indirect Tax Division, Treasury; Ms Meghan Quinn, General Manager, Macroeconomic Modelling Division, Treasury, Committee Hansard, 21 September 2011, p. 12.

> Arts and recreation services; and
> Other services and other (but noting that agriculture, forestry and fishing industries are excluded in the legislation)[337]

AMEC were among submitters who identified the discrepancy between the stated and actual impacts:

> Fuel credit reduction will capture many small to medium companies that are not in the Government's "Top 500 Polluters" group because they will be effectively paying a carbon tax. [338]

This was likely to have a significant negative impact on future investment in an industry of major importance to the Australian economy.

> Proposed phased reductions in the diesel fuel credit from 6.21 c/L to 6.858 c/L (in 2014-2015) and thereafter additional six monthly adjustments, is a significant investment disincentive for mineral exploration and mining companies that are funding operations from limited equity. [339]

The extent of the hit through fuel tax to businesses across a range of sectors was canvassed by the Minerals Council of Australia:

> The second aspect of the carbon tax proposal I want to talk about is the fact that it will not be limited to 500 big polluters. The new fuel tax legislation provides, in the government's own words, an effective carbon price on business through the fuel tax system. That will raise, on our estimates, about $16 billion by 2020. There is no threshold on the use of fuel before that tax cuts in … there are 60,000 firms in this country that will be paying 6c a litre extra on fuel from 1 July 2012. That is 22,000 in construction, 5,350 in manufacturing, 1,500 in mining, thousands of tourism operators, and several hospitals and large healthcare providers. We look forward to the government acknowledging that there is a direct cost from this scheme not on 500 big polluters but on more than 60,000 businesses, from the very smallest to the largest.[340]

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[337] The Treasury, Submission 66, p. 2.

[338] Association of Mining and Exploration Companies (AMEC), *Submission 8,* p. 4.

[339] Association of Mining and Exploration Companies (AMEC), *Submission 8*, p. 4.

[340] Mr Brendan Pearson, Deputy Chief Executive, Minerals Council of Australia, Committee Hansard, 27 September 2011, pp. 71-72.

On-road fuel

The Australian Trucking Association (ATA) gave evidence regarding the extent of the impact to their operators of the changes, especially the Labor Government's planned future changes to heavy on road vehicles.

> The ATA and its members have welcomed the industry's two year exemption from carbon pricing. The ATA considers the trucking industry should be **permanently exempt**, because … *Trucking businesses are predominately small businesses* … the planned changes to the fuel tax credits system will impose an effective carbon price on every one of Australia's 47,000 trucking businesses. 85 per cent of these businesses are small businesses with fewer than five employees. They are no different to the other small businesses that are permanently exempt from the carbon price, except they happen to operate trucks weighing more than 4.5 tonnes. [341]

The ATA believes operators will mostly have to absorb these costs.

> Mrs GASH: Having a number of these small businesses in my area, how difficult will this be in your view for these small businesses to pass on this carbon tax?
>
> Mr St Clair: Exceptionally difficult, and it has been proven over the last few years as fuel prices have fluctuated. We have certainly seen them come down over the last five years, but prior to that most operators where possible were able to put in place fuel levies for their customers. We have found it is increasingly difficult, in the advice given to us by operators across Australia, being able to pass those costs on now. That is making it very difficult for those who operate not only in the cities but also in regional, rural and remote Australia to be able to claw back those costs.
>
> Mrs GASH: Is it not just the carbon tax, are you also talking about administration costs?
>
> Mr St Clair: It will be a whole gamut of costs. At the end of the day we are a service industry. We sell our products which are servicing a nation that likes to shift a lot of freight over long distances as efficiently and effectively as they can. When you consider that 80 per cent of the freight happens around the metropolitan areas of the cities and less than a third of the freight is interstate—the balance is intrastate—you have got an enormous

[341] Australian Trucking Association, *Submission 27*, p. 3.

> amount of small business operators that are subcontracting for the larger logistics companies in Australia.[342]

The ATA further suggests that the planned inclusion from 2014-15 of on-road fuel should not proceed.

> Senator BIRMINGHAM: Mr St Clair, the Treasury modelling that was released just last week updated the government's policy scenarios, and stated:
>
> > The Government policy scenario includes an effective carbon price on fuel used by heavy on-road transport from 2014-15 …
>
> Accordingly, it is the industry's expectation that government policy is emphatically to proceed down that path, isn't it?
>
> Mr St Clair: It is. Any submission we have made following our policy development, as far as our council is concerned, is that we think we should be exempt. And we think we should be exempt from any future tax because we are embracing the new technologies, the new, cleaner engines and cleaner fuels as they become available, providing they cover those three criteria.
>
> Senator BIRMINGHAM: I am sure there are good intentions for the environment in there, but in the end, if you boil it down, there is already a significant cost pressure for industry to be extremely efficient, isn't there?
>
> Mr St Clair: There is, as the price of fuel goes up.[343]

The industry cites significant environmental gains made already through developments achieved without having been driven by the claimed incentive of a carbon price.

> The ATA's recent environmental credentials report shows the industry's greenhouse gas emissions fell 35 per cent per billion tonne kilometres between 1990 and 2011, as a result of improvements in engine technology and the use of safer trucks with greater capacity. [344]

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[342] Mr Stuart St Clair, Australian Trucking Association, *Proof Committee Hansard*, Canberra, 26 September 2011, pp. 24-25.

[343] Mr Stuart St Clair, Australian Trucking Association, *Proof Committee Hansard*, Canberra, 26 September 2011, p. 26.

[344] Australian Trucking Association, *Submission 27*, p. 3.

Extent of fuel impacts

The horticultural industry has given evidence about the impact on them of increased fuel costs under this legislation.

> …the introduction of the proposed Fuel Tax Legislation will place further pressure upon existing farm profit margins through increases in the cost of electricity (a major cost for on-farm irrigation and packing shed operations which has already seen 10% increase recently), fertilizer, fuel and crop protectants [345].

Refrigerants

Refrigerants Australia has provided evidence about the equivalent carbon price, or carbon tax equivalent, to be applied to synthetic greenhouse gases that are largely used as refrigerants:

> The tax is to be implemented under the existing *Ozone Protection and Synthetic Greenhouse Gas Management Act 1989* (OPSGGMA) … The tax will be levied at the following levels:
>
> 2012-13: $23 per tonne CO2e
>
> 2013-14: $24.15 per tonne CO2e
>
> 2014-15: $25.40 per tonne CO2e
>
> After 1 July 2015, the carbon price will be the benchmark average auction price.
>
> Industry estimates indicate that this tax will raise in excess of $270 million in 2012.
>
> This figure is a multiple of the current industry turnover, and represents a price increase ion (sic) these substances of 300% to 500%.[346]

Refrigerants Australia has provided information to Coalition members of the committee that 929 entities are currently licensed under the OPSGGMA and will effectively pay the carbon tax. Of these 929 additional entities, Refrigerants Australia says 70 per cent would be classified as small to medium enterprises.

Coalition members of the committee are astonished at this credible suggestion that the number of entities to be directly hit by this legislative package is on this basis alone approximately three times the number peddled by the Government. That, of

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[345] Bundaberg Fruit & Vegetable Growers, *Submission 10*, pp. 1-2.

[346] Refrigerants Australia, *Submission 69,* p. [1].

course, if before the tens of thousands of businesses facing higher fuel costs are included.

11. Farcical inquiry shows contempt

Process abused from the beginning

The establishment of this Joint Select Committee, and the rejection of Coalition moves to refer this legislation to the usual, portfolio-specific Senate Standing Committees, represents a significant departure from usual practice.

The Senate's own website states:

> As a house of review, the Senate subjects legislation to additional scrutiny. Each bill that comes before the Senate is examined by the Scrutiny of Bills Committee … The Selection of Bills Committee considers all bills before the Senate to identify any which are complex or controversial or which senators have indicated warrant further examination by a standing committee … Bills are usually referred to a legislative and general purpose standing committee which has responsibility for that particular portfolio area.[347]

This legislation is certainly sufficiently complex and controversial to warrant referral to these committees but, extraordinarily, the Scrutiny of Bills Committee – dominated by the Labor-Greens proponents of this legislation – rejected Coalition moves to have it so referred.

This committee – the Joint Select Committee on Australia's Clean Energy Future Legislation – was similarly dominated by the Labor-Greens proponents of the very legislation into which it was established to inquire.

Using their majority, the Labor and Greens members scrapped parliamentary convention for a Government-nominated Chair to be offset by an Opposition-nominated Deputy Chair. That is, having elected Labor MP Anna Burke to chair the inquiry, the Labor and Greens members together with an Independent supporter of the legislation voted 8 to 5 to install Greens Senator Christine Milne, rather than a Coalition Opposition member, as Deputy Chair.

Given Senator Milne is not only a proponent but was a key architect of Labor's carbon tax, her appointment makes a mockery of any claims this inquiry has been undertaking an honest assessment of the 19 carbon tax bills.

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[347] Senate Brief No 8, *The Senate and Legislation*, May 2011, http://www.aph.gov.au/senate/pubs/briefs/brief08.htm accessed 5 October 2011.

Repeating past mistakes

The Gillard Government, by establishing and consenting only to a farcically brief inquiry into substantial legislation of great consequence, has repeated mistakes of the former Coalition Government that Labor Senators once criticised when in Opposition.

The following statements are from the Opposition Senators' Report from the 2005 Senate inquiry into the *Workplace Relations Amendment (Work Choices) Bill 2005* but are just as applicable to this inquiry.

> It is outrageous that only one week was allowed for the committee to receive submissions … To make matters worse, hearings were scheduled in the week following the closing date for submissions, which did not allow enough time for the committee to properly consider the more than 5000 submissions received.
>
> In placing an unreasonable limit on the time for this inquiry, the Government has shown its disregard for the important scrutiny role performed by the Senate and its committees. It has shown no interest in taking this inquiry to the people and involving them in the work of the committee.[348]

Once criticised, now endorsed

Coalition members of this committee understand the former Coalition Government made some mistakes for which it was criticised and ultimately punished at the ballot box in 2007. We are astonished that Labor members are now accepting of procedure they once criticised.

It is all the more surprising that the Chair has actually sought to publicly associate this inquiry's proceedings with this past inquiry so criticised by Labor at the time:

> We are having an in depth inquiry into the legislation. It exactly mirrors what was done when the Howard Government introduced the Work Choices legislation and I think we'll get a thorough inquiry into the bills. … Parliamentary committees have a responsibility to scrutinise bills and we are not going to shy away from the Parliamentary responsibilities to scrutinise bills, so we will go through the process in a thorough manner, exactly how the Howard Government introduced the Work Choices legislation.[349]

[348] Senate Standing Committee on Employment, Workplace Relations and Education – Legislation Committee report on the *Workplace Relations Amendment (Work Choices) Bill 2005* [Provisions], pp. 47-48.

[349] Ms Anna Burke MP, Chair, Joint Select Committee on Australia's Clean Energy Future

Clearly, the approach advocated by Ms Burke and claimed without foundation to be 'thorough' (c.f. this minority report's criticism of the inquiry's conduct) was strongly criticised by Labor in 2005. We acknowledge these past criticisms and similarly strongly criticise the Labor-Greens approach now. While we have learned from our mistakes, Labor now endorses and repeats them.

The comparison with the treatment of the Work Choices legislation is not entirely apt, however, in that the Work Choices legislation was a single bill amending a single Act, whereas this is a package of 19 bills creating new and significant Acts – including the implementation of several new taxes and charges, not least of which is the carbon tax, and the establishment of several new agencies – and amending several other existing Acts but also with further legislation already foreshadowed as discussed below. If a more thorough and considered inquiry was warranted into the Work Choices legislation, it is only more warranted into this sweeping legislative package.

Limited time, most submissions not accepted

This Joint Select Committee – dominated by the Labor and Greens proponents of the legislation into which it is inquiring – allowed just a week for the committee to receive submissions, determining at its first meeting on Thursday 15 September that it would advertise for the first time on Saturday 17 September 2011 but with a closing date for submissions of Thursday 22 September 2011.

Hearings for this inquiry were scheduled in the week following the closing date of submissions, which did not allow the committee to properly consider the more than 4,500 submissions it received. In fact, the Labor-Greens dominated committee opted not to accept the vast majority of submissions and merely received them as 'correspondence', despite unsuccessful Coalition attempts to extend both the deadline for making submissions and the time allowed for the committee to report.

This volume of correspondence demonstrates the level of engagement and the depth of feeling Australians have in relation to the Government's policy approach on this issue, but which Labor and the Greens have effectively sought to silence as far as this inquiry is concerned.

The Coalition, in contrast, seeks to give voice to these Australians through this minority report. As detailed, to some degree throughout this report, but still constituting just a small sample of the thousands seeking to have input, those making submissions not accepted by the committee made many valid points and

Legislation, interview on ABC News 24, 21 September 2011.

have valid concerns that are not being addressed by this Labor-Greens dominated committee.

The Coalition believes the volume of correspondence, and breadth of issues of concern including some specific to particular regions, warranted further inquiry hearings and for some to be held outside of Canberra, Sydney and Melbourne. Coalition members wrote to the Chair to this effect, proposing hearings be held in at least one of Mackay in Queensland, the Illawarra region of New South Wales or Perth in Western Australia. The committee held hearings in none of these areas, or anywhere but Canberra, Sydney and Melbourne, again at least partly due to the short timeframe imposed on it.

Notwithstanding our concerns about the political timeframes and limitations placed on the inquiry, Coalition members participating wish to express our thanks to the secretariat staff who delivered professional assistance to all members of the committee against all the pressures applied to them.

Past inquiries no substitute

It is disingenuous of the majority committee to suggest that past inquiries into the science of climate change and climate change mitigation policy[350] in some way obviate the need for a thorough inquiry into this legislative package; they don't. This would be the case even without bills that deal with measures the Government has sought to introduce as part of single (though as yet incomplete, as discussed below) legislative package that includes not only carbon pricing measures but also taxation and so called 'compensation' or industry assistance measures.

This farcical 'shotgun' abbreviated committee inquiry is the only Parliamentary committee inquiry into these 19 bills.

Some – but not all – of these 19 bills were released for the first time, as 13 draft exposure bills only, on 28 July 2011. Even the majority report acknowledges that, as a result of this exposure draft consultation by DCCEE, the bills were amended to take account of concerns raised with DCCEE about their content. This is only further cause, rather than less, for proper Parliamentary scrutiny of and inquiry into this new and already subsequently amended legislation.

DCCEE consultation

Such was the short timeframe allowed for submissions that this committee took the extraordinary measure of effectively accepting submissions made outside of

[350] Under the heading 'Previous parliamentary inquiries', from p. 6, Chair's Draft.

the normal parliamentary committee scrutiny process, through DCCEE's consultation on its exposure draft legislative package of 13 bills.

Even then, and despite DCCEE's consultation closing on 22 August 2011 and an undertaking to this committee to post submissions online no later than 19 September 2011, submissions received by DCCEE were only made publicly available – including to this committee – on its website from 20 September 2011, the day before the committee inquiry's first public hearing.

Submissions ignored

Even given the limited time afforded, many organisations and even some individuals did manage to prepare submissions containing detailed commentary and/or specific recommendations relating to the legislation's content. These include the Energy Supply Association of Australia, the National Lime Association of Australia, Australian Petroleum Production and Exploration Association Limited, the Association of Mining and Exploration Companies, Bundaberg Fruit and Vegetable Growers Co-operative Limited, The Climate Institute, WWF-Australia, Origin Energy Limited, the Australian Aluminium Council, AGL Energy Limited, the Cement Industry Federation, the Australian Industry Greenhouse Network, Mr Paul Rodgers, the Australian Network of Environmental Defenders Offices, Mrs K Hartmann, the Magnetite Network, the Law Council of Australia and the National Farmers' Federation.

The majority of those making such detailed and pertinent submissions were never called to appear at an inquiry hearing, and overwhelmingly the specific suggested amendments have not even been canvassed in the majority report presented by the Labor-Green proponents of the legislation.

Some of the commentary and recommendations relating to the legislation, and ignored by the majority, is addressed herein below.

Treasury modelling

The Government publicly committed for its Treasury modelling of a carbon price to be publicly released, both upon completion of a scheme's design and upon release of the legislative package.

> … when we've designed the scheme we will produce the modelling…[351]
>
> … when we release the package we'll also release modelling that will have price projections at different scenarios.[352]

[351] Wayne Swan, Treasurer, interview on 702 ABC Sydney, 11 May 2011.

Despite these promises to release it when the Bills were released, the Treasurer publicly drip feeding aspects of it days before the first hearing of the committee and numerous calls for it to be released in a timely way, updated Treasury modelling reflecting the actual starting price of $23/tonne and other key elements of this package was released only on the morning of the first hearings into this inquiry, just minutes prior.[353]

Its late release meant Committee members were unable to consider meaningfully the updated Treasury modelling prior to questioning Treasury officials who were among those appearing at the first hearing and who therefore had to be subsequently recalled to a later hearing.

Massive legislative reform

As canvassed above, the legislative package subject to this inquiry is 19 bills constituting more than 1100 pages of new legislation. Yet even these 19 bills are already known not to constitute the entire legislative package proposed by the Government, as made clear in an inquiry hearing by DCCEE Secretary Blair Comley.

> Senator BIRMINGHAM: Do the 19 bills before us constitute the entire legislative package?
>
> Mr Comley: No. Well, in terms of the package that was announced as part of the Clean Energy Future there is a bill that will be forthcoming on the Clean Energy Finance Corporation and there is also a bill that will be forthcoming on ARENA, the Australian Renewable Energy Agency.
>
> Senator BIRMINGHAM: When will those two bills be forthcoming?
>
> Mr Comley: It is still to be determined.[354]

Many submitters join the Coalition in expressing their dismay at the timelines provided to participate in this inquiry and make a meaningful contribution:

> AMEC also expresses its complete dissatisfaction in the manner in which this step-change legislation has been introduced. The timelines throughout the legislative consultation process have been extremely short, which has not allowed AMEC and its

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352 Greg Combet, Minister for Climate Change and Energy Efficiency, doorstop media interview, 17 May 2011.

353 Ms Anna Burke MP, Chair, Joint Select Committee on Australia's Clean Energy Future Legislation, Proof Committee Hansard, 21 September 2011, p. 2.

354 *Proof Committee Hansard*, Canberra, 21 September 2011, p. 6.

members any reasonable time to properly consider the finer detail of the legislation. [355]

BFVG is also disappointed in the amount of time granted (six days including a weekend) by Government to provide submissions in regards to the proposed suite of legislation (approximately 1100 pages) under the banner of Carbon Tax. BFVG would have thought that such an important suite of legislation deserved a longer time to enable both industries affected and the general community to provide in-depth submissions and encourage worthwhile debate. [356]

[355] Association of Mining and Exploration Companies (AMEC), *Submission 8,* p. 3.

[356] Bundaberg Fruit & Vegetable Growers, *Submission 10*, p. 3.

12. Conclusion

Labor's carbon tax is the wrong policy, for the wrong country at the wrong time:

> In the theoretical world, the penalty system has a lot of merit. In the context of Australia, with the market structures that it has, in our view the penalty system is precisely the wrong way to go … In the economic reality of the business world that we deal with day to day, the right policy has to be a blend of stick and carrot. This policy is all stick and not enough carrot.[357]

> To date, ETS mechanisms have proven only partially effective in encouraging reductions in greenhouse gas (GHG) emissions. This is due to the unpredictability and volatility they inherently create in the price of carbon, which discourages the significant, long-term investments in energy efficiency and low carbon technologies required to materially impact GHG emissions levels. [358]

> I find it impossible to support this current legislation. It does not make sense. It is economically damaging. It is an exercise in futility. A better way is possible and it is a great shame, going to the point, that better ways were not explored.[359]

Coalition members restate our belief that creating a giant new bureaucracy with costs approaching $400 million over the forward estimates so as to impose a multi-billion dollar new tax that will drive up the costs of everything in Australia but will not drive down Australia's emissions is clearly the wrong approach.

We believe there is a better way and recommend that the bills not be passed.

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[357] Mr Stuart Allinson, Director, Exigency Management Pty Ltd, Committee Hansard, 27 September 2011, p. 15.

[358] ExxonMobil Australia Pty Ltd, *Submission 38*, p. 3.

[359] Mr John Harry Pegler, Chairman, Australian Coal Association, Committee Hansard, 27 September 2011, p. 68.

Senator Simon Birmingham

Senator Mathias Cormann

Mr George Christensen, MP

Ms Joanna Gash, MP

Mr Tony Smith, MP