



**Senator Mathias Cormann (Chair) & Senator Mitch Fifield (Member)
Senate Select Committee on Fuel & Energy**

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Transcript – Media Conference

Public release of ‘The CPRS: Economic cost without environmental benefit’/Report of the Fuel & Energy Committee into the CPRS

E&OE.....

Topic: The CPRS

SENATOR CORMANN:

Thank you very much for joining Senator Fifield and myself for the release today of the Select Committee on Fuel and Energy Report: ‘The CPRS: Economic cost without environmental benefit’.

After an inquiry that lasted nearly a year, investigating the impact of the various iterations of the CPRS as proposed by the government, the Fuel and Energy Committee has come to the conclusion that the Australian economy will suffer with no benefits to the environment, if the government pushes ahead with the CPRS.

As such, we have made the recommendation that the Senate not support the CPRS in its current form. We take the view that the CPRS will put even more pressure on our economy, it will damage our international trade competitiveness, it will cost jobs, it will put our future energy security at risk, and it will hurt regional Australia in particular.

We think that the government has mismanaged the process from the word go, which is evidenced by things like at five-minutes-to-midnight calling of an inquiry in the House of Representatives – a new inquiry into the choice of an ETS – only to cancel it a week later. And then of course we have had further announcements earlier this week.

The Committee is deeply concerned that the government was not able to demonstrate how, and by how much, the proposed CPRS would reduce global greenhouse gas emissions rather than merely how it would reduce domestic emissions. We think that the government has completely ignored the fact that at times it may well be better to increase emissions domestically in Australia, if that means an overall reduction in global emissions. And of course exporting jobs and emissions from Australia overseas is also not the way to achieve a beneficial environmental outcome.

With those few opening remarks, you have got there in front of you a pretty detailed report of more than 200 pages. We have made about eighteen recommendations on what we think should happen moving forward.

I ask Senator Fifield if he might want to add some comments having participated in the Inquiry, and then we'll open it up to some questions.

SENATOR FIFIELD:

Thanks Mathias. Well obviously I fully endorse the Report and Mathias' comments. I think that the most significant finding of this inquiry is that there were no alternative approaches to reducing carbon emissions examined by the government; that there was no work undertaken to determine the employment impacts of the government's CPRS; or the impacts of any other alternatives.

We just don't know if there are better alternatives which could reduce carbon emissions by more and at a lower economic effect.

It is interesting that the Opposition has had to initiate in effect four inquiries into the government's ETS; three Senate Inquiries, of which this is one, and also the work commissioned by Andrew Robb as the relevant Shadow Minister. As Mathias said, the government did have an abortive attempt to kick off its' own inquiry but abandoned that because it was being too honest in the terms of reference, asking whether the ETS as proposed by the government was in fact the best scheme. So we were backed into instituting four inquiries because the government won't initiate a serious inquiry.

I also think it is interesting that the government previously were telling the Australian community that pestilence and catastrophe of Biblical proportions would in fact face the nation and the world if their ETS was delayed beyond 2010. The government was very keen for all of us to give the planet the benefit of the doubt, but it seems apparently, the planet is very understanding of the Rudd government's political concerns in delaying an ETS. Now, obviously we think it was the right decision because it is important to get the ETS right, but it really belies the true motivation of the government previously in saying that under no circumstances could an ETS be delayed. It has been politics that have driven the government's ETS at the beginning, and it is politics which is driving their delay of the ETS now.

SENATOR CORMANN:

Any questions.

JOURNALIST:

(inaudible) to a scheme that is not going to happen. This week they substantially changed the scheme, so what relevance does this report have now?

SENATOR CORMANN:

Well, we don't actually agree that the government has substantially changed its approach. What they have said is that they would delay the scheme by a year, which is something that previously they have refused to even consider or contemplate, and they have made some changes at the edges.

What we are saying is that we agree that we ought to focus on reducing global greenhouse gas emissions. The scheme that the government has put on the table is ineffective in helping to achieve that, so the government should go back to the drawing board and come up with a better scheme.

The purpose of this report is to identify the many flaws that are there and give the government some pointers as to how any future scheme could be developed on a better basis.

JOURNALIST:

One of the things you have recommended here, Senator, is that jobs be protected under any CPRS. Now most of the changes the government has flagged to the ETS are designed to do just that. Does that mean then that your party would be willing to vote for the legislation when it is finally taken?

SENATOR CORMANN:

When it comes to the impact on jobs the government is flying completely blind. Something that is not very well understood is that in the Treasury modelling the government did not assess the impact on jobs. The government assumed that full employment would be maintained all throughout. That is reckless and that is irresponsible, to use some of the Prime Minister's own language.

The first thing that the government would have to do is actually conduct some proper modelling, in particular some proper modelling in terms of the impact on jobs, so that they can make some informed decisions when it comes to the design of a future iteration of an ETS.

JOURNALIST:

What I guess I am saying to you is it seems to me the government has extended the olive branch to the Liberal and National Parties with the redesigned scheme to protect the jobs. Do you not agree with that?

SENATOR CORMANN:

Essentially the government still has not addressed the short and medium term impacts on jobs. The government still will put our export industries at a competitive disadvantage. They are putting them at a competitive disadvantage without achieving any environmental benefit in terms of reducing global greenhouse gas emissions. If you look at the much cited European scheme for example, they are totally committed to protecting their export industries up until at least 2020. That is they are providing 100% of free permits under the European scheme to their exporting industries. Essentially the announcement on Monday by the Prime Minister was part of a political strategy to get the government out of a spot of bother; a spot of bother that they got themselves into.

What we need is for the government to stop focussing on politics and to start focussing on what is sound public policy. In that context I don't agree that the changes that were announced by the government on Monday were sufficient in terms of protecting jobs. In fact I put it to you that the government has no idea - at least if you go by the published Treasury modelling - the government has no idea of what the impact of its' proposed CPRS will be on jobs, because it is not something they have assessed. In their modelling they have assumed that full employment would be maintained all throughout, they have not assessed what the impact of their CPRS would be on jobs.

SENATOR FIFIELD:

Can I just add, the government by delaying the implementation of the ETS has effectively confirmed that they believe that the ETS will cost jobs. If the ETS wasn't going to cost jobs then they would have continued with its implementation according to the 2010 timeframe. The reason that they have delayed it is that they know it will cost jobs. They do not want it to do that before the next election, and having essentially conceded that it is incumbent upon them to actually identify what the cost to employment will be and why even in 2012, would you proceed with a scheme that you knew was going to cost jobs. Surely you would look to see if there are alternative scheme that could reduce carbon emissions, but not have that same economic impact.

SENATOR CORMANN:

Now Peter, am I going to get a question from Western Australia?

JOURNALIST:

You make a recommendation about exploring nuclear power in Australia. Is that something that goes beyond Coalition policy about going nuclear?

SENATOR CORMANN:

I think that if we are serious about reducing emissions, while being mindful of our energy needs into the future, then we have got to be prepared to assess – properly assess – and investigate the possibility of nuclear energy in Australia. Essentially, our recommendation is that the Government should explore it and in making that recommendation, we are in the very good company of the National Secretary of the Australian Workers Union, who has given exactly that evidence to our committee.

We have considered the evidence and we are making recommendations that we hope will be seriously considered both by the government and by the opposition in terms of how we think that we should move forward in Australia – suffice to say that if we are serious about reducing emissions within Australia while being mindful of our energy security needs into the future, then nuclear energy in Australia is something that we have to be prepared to at least explore and seriously assess.

JOURNALIST:

The CPRS has a high rate of auctioning compared to other schemes overseas. Do you think the proportion of permits being auctioned under the scheme in Australia should be much lower?

SENATOR CORMANN:

Essentially we think that the scheme has to be reviewed so that the impact is not going to put Australian industry at a competitive disadvantage. At present it does that and the level of auctioning is one of the issues in relation to that for sure.

JOURNALIST:

Should the Productivity Commission do the extra analysis you have been discussing?

SENATOR CORMANN:

We agree with that proposition, yes.

JOURNALIST:

The Productivity Commission in the past has taken a very dim view of complementary policies – non-market based policies - is that something you agree with?

SENATOR CORMANN:

That will be up to the Productivity Commission to state having reconsidered the issues. Essentially from our point of view, taking a step back, what an Australian emissions trading scheme should look like; it should be environmentally effective – that is it should help reduce global emissions; it should be economically responsible – that is it should not inappropriately put Australian industry at a competitive disadvantage without achieving an environmental benefit; and it should be mindful of our energy security needs into the future.

Everyone that strongly supports what the government is doing in terms of the CPRS points to the experience in Europe as a way of saying ‘they have done it, why can’t we?’. The reality is that the European Scheme is very, very different. The protections in the European scheme in particular for exporting industries are quite strong. Whereas, in the Australian scheme as it is currently proposed - the most complex, most bureaucratic, and most aggressive scheme proposed anywhere in the world – our EITE industries will be very much exposed and will be very much under pressure.

JOURNALIST:

So what would you guys do about climate change?

SENATOR CORMANN:

Essentially, we have made some very clear recommendations as to what should happen and some of them have been touched on.

Firstly, the government should come up with a scheme that will actually encourage economic growth in Australia where it can help reduce global emissions...

JOURNALIST:

So would you guys have emissions trading or not? And... (*inaudible*)

SENATOR CORMANN:

Well, emissions trading is one of the key instruments that has been assessed in Australia for some time, but very specifically in answer to your first question; any emissions trading scheme in Australia should not prevent economic growth in Australia even if that means an increase in domestic emissions, where that particular economic activity can reduce emissions globally.

(Inaudible interruption)

Well, an emissions trading scheme has been considered. I think there is a consensus that an ETS is a very efficient way of reducing emissions. However, an ETS does not equal another ETS. What the Rudd government has put forward is the most complex, most bureaucratic, and the

most aggressive ETS proposed anywhere in the world. It is based on a flawed design. It would actually be counter productive in terms of the stated objective, which is to reduce global greenhouse gas emissions. The design as it is currently proposed is not appropriate from our point-of-view. We think the government should go back to the drawing board.

JOURNALIST:

You are the alternative government. What would you do?

SENATOR CORMANN:

No. I am the Chair of the Fuel and Energy Select Committee. A committee that for the last twelve months assessed what the government has proposed to do. We have identified a series of flaws and we have made about eighteen recommendations, which we hope both the government and the opposition will seriously consider as they finalise their respective positions.

JOURNALIST:

You're a Liberal Senator. What would the Liberals do about climate change?

SENATOR CORMANN:

I am here speaking as the Chair of the Fuel and Energy Select Committee; a Committee that for the last twelve months has thoroughly assessed the ins-and-outs of the government's proposed scheme in its various iterations.

I urge you to have a very close look at the report – more than 200 pages of it – and the recommendations that we have made. And I think the recommendations pretty well speak for themselves in terms of what we as a Committee think should be done to achieve a reduction in global greenhouse gas emissions more effectively and more economically responsibly.

JOURNALIST:

Why should people listen to the Liberals on climate change when you won't say what you would do about climate change?

SENATOR CORMANN:

We as a Committee have been very clear as to what we think should happen, both from a process point of view and from a substance point of view moving forward. The policy approach of the Liberal party, or the Coalition for that matter, is something that will be determined in due course, and the appropriate Shadow Ministers and the Leader will make the appropriate announcements after the Liberal and National Party party-rooms have gone through the appropriate processes.

What I am here to do today is to present to you the findings of the Fuel and Energy Select Committee, having gone through a very thorough, year-long process, assessing the impact of the scheme as proposed by the government. I am confident that the report that we are presenting here today will be very seriously considered by the Coalition, the Shadow Minister Andrew Robb and by our Leader Malcolm Turnbull. I am sure that when they are ready to make an announcement as to what our final position is going to be you will be among the first to know.

SENATOR FIFIELD:

I might just add that Malcolm Turnbull has made clear the opposition direction – that an appropriately designed ETS is an element of carbon emissions reduction; bio-sequestration, better building design, reforestation – these are all elements of an approach to reduce carbon emissions, but it would have to be an appropriately designed ETS and something which, as we have been saying, is compared against other alternatives. No one wants to pursue an ETS just for the sake of an ETS, and I think that is what this government is doing. An ETS has become an end in itself. For the Opposition an ETS isn't an end in itself. You would only pursue an ETS if you could design one which made a significant reduction on carbon emissions and didn't have a negative economic effect. It is not an objective in itself to have an ETS.

JOURNALIST:

The Productivity Commission has previously looked into complementary policies – policies that sit outside a market based scheme such as an ETS – and the Productivity Commission sets very strict criteria as to when you should have a complementary policy. Now you seem to be stressing the importance of the role that non-market mechanisms might play, i.e. policies outside the ETS. So are you confident that all those policies will adhere to the very strict criteria that the Productivity Commission has set as to when a complementary policy is fair enough and when it is not?

SENATOR FIFIELD:

You pursue any policy, be it a market based one or another approach, if it will have a meaningful reduction in carbon emissions. Now, what the mix is in terms of the Opposition's policy; that is something to be determined.

JOURNALIST:

It has to be a meaningful reduction, but in an efficient way?

SENATOR FIFIELD:

That's right, in an efficient way. I'm just here, in response to the question, to just indicate that Malcolm Turnbull has given an indication of the direction that the Opposition's policy will head.

JOURNALIST:

For example, Malcolm Turnbull's policy on accelerated depreciation on buildings; are you confident that satisfies the Productivity Commission's rule on when you should have complementary policies?

SENATOR FIFIELD:

The policy is one which Malcolm has announced. It is part of our package. As I said I am here to give you an indication of the direction our policy is heading, but you are better placed to direct those questions to the relevant shadow... (inaudible)

SENATOR CORMANN:

Just going back to the report we are discussing here today. I guess the important thing, and going back to your question, we have to remain focussed on what it is that we are trying to achieve. If we are trying to achieve a reduction in global greenhouse gas emissions then the question is 'is this an effective way of achieving it, and if not is there a better way'. Clearly

there is a consensus that an ETS will be a part of it, but that does not mean that it will be any ETS. It ought to be a well designed ETS. At this point in time we are so far away from this, that the government should take a step back, reconsider the best way forward consistent with the inquiry that the Treasurer sought to initiate less than two months ago in the House of Representatives, and move forward with a new foundation. Before we commit to any ETS, before Australians are being asked to make a sacrifice they deserve to know what they are making a sacrifice for is actually going to make a difference – and at this stage they don't.

JOURNALIST:

Senator Cormann, you just spoke about how European industry is protected under their ETS. The last time I checked coal is not one of Europe's major exports where it is here. Now isn't it fact that it is basically impossible to have a meaningful ETS without it delivering some pain to the coal industry?

SENATOR CORMANN:

The thing is, in terms of the coal industry, it really comes down to what are the transitional measures that are being put in place. We could go through the whole list of deficiencies in the Treasury modelling, but in the modelling they assume a seamless transition from one day to the next, all of the energy infrastructure and all of the energy supply industry will have adjusted to the new world. Well, it doesn't work like that in the real world.

And as far as the coal industry is concerned, it is a very important industry for Australia and it has been a very important industry for Australia for a long time. Our economy as a whole is structured around energy based on coal to a large degree. For the government to come and try and suggest that we can make an adjustment seamlessly, without putting proper transitional measures in place is just totally ludicrous. This is where we are saying, have another look including at your approach as it relates to the coal industry, because you are not going to achieve your environmental objective and you are going to hurt a lot of people in the meantime.

JOURNALIST:

Getting back to my question, what I was trying to get at is that it is possible to protect European industry because of the nature of those industries, whereas it is actually really not possible to protect the coal industry if we are going to have a meaningful ETS, is it?

SENATOR CORMANN:

Well I think you will find that when they started the scheme in Europe, they had a very long lead-in time, they had significant transitional measures that were appropriate for the European circumstance, and that while they put a system in place that was ultimately designed over the medium and longer terms to help achieve a reduction in emissions, they were very committed to ensure that the implementation was as smooth as possible. Now it is incumbent on the Rudd government to take a similar approach here in Australia and to commit themselves to a smooth transition to ensure that people do not get hurt needlessly and that we are focussed both on achieving the environmental objective but ensuring that it is implemented in a way that is economically responsible and takes into account the realities of life.

JOURNALIST:

So are you talking about 100% free permits for all industry, or just for certain EITEs?

SENATOR CORMANN:

In Europe they provided 95% free permits across the board, and 100% free permits for EITE industries. It is not our role here as a Committee, without the resources of government, to say 'this is what the design should be in detail'. As a general principle, we think that certainly in terms of a short and medium term transition into a scheme, there ought to be more appropriate transitional arrangements to ensure that the economic impact is sustainable. At present, and in particular in the economic circumstances that we are facing at present, we do not think that that is the case.

JOURNALIST:

Wouldn't that mean more free permits? Or 100% free permits?

SENATOR CORMANN:

That is one of the things the government should consider to be sure.

JOURNALIST:

The government on Monday announced a global recession buffer which increased the free permits to 95 and 66%. Does that not go some way to submitting what you are after?

SENATOR CORMANN:

Firstly, the government uses the figure 95% and 66% and the reality is in practice it is much less than that. We had evidence before our Inquiry from Bluescope Steel out of Wollongong who told us 'on paper we get 90% free permits, but because of the way Treasury will calculate this across our production based on an activity-based approach in practice it will mean 63% of free permits – so we will have a cost and we will have to purchase 37% of permits that we wouldn't have had to purchase in the past, and that will cost jobs, it will put pressure on our operation, it will put pressure on our bottom line. So 90% does not equal 90%, that's for starters.

Secondly, we have to go back to the beginning. The government is proposing to implement a scheme ahead of anywhere else in the world. If the rest of the world takes similar action the problem disappears to a large degree. Until we have a comprehensive global agreement in place, why would we put our export industries at risk – even those that may actually be environmentally more efficient than equivalent industries overseas? Why would we make it harder for our export industries to compete with potentially more polluting overseas competitors? It is just not logical. Until such time as there is a global agreement in place it would be irresponsible to make it harder for our export industries to compete with more polluting overseas competitors. That is the basic premise, and if that means 100% free permits then that means 100% free permits. Until such time as there is a comprehensive global agreement in place and essentially our export industries can compete on a fair basis.

Thank you very much for coming and I do hope that at least some of you will have a read of the report.

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