



Labor's flawed Emissions Trading Scheme

Second Reading Speech
By Senator Mathias Cormann on 23 June 2009

[Senator CORMANN](#) (Western Australia) (6:14 PM) —The Rudd government's proposed emissions trading scheme is deeply flawed. If the government's goal is to help reduce global greenhouse gas emissions, it will not achieve that through its ETS. It will not help reduce global greenhouse gas emissions. In fact, the Rudd government's [Carbon Pollution Reduction Scheme Bill 2009](#) and related bills could well result in more global greenhouse gas emissions than there would be without them. The scheme is not going to do anything for the environment, yet it is a scheme that will cost jobs and put pressure on our economy.

You would think that a Labor government would care about jobs. But, in their modelling exercise, do you think they assessed the impact of their proposed emissions trading scheme on jobs? No, they did not. They, in their absolutely inadequate and flawed modelling—modelling that is as flawed as the emissions trading scheme itself—included full employment as a modelling assumption, rather than trying to assess employment as a modelling result. They started off telling their model that we are going to have full employment. However, there is going to be an impact on jobs in the steel industry, as we were told in Wollongong when we went there with the Senate Select Committee on Fuel and Energy. We were told 20,000 jobs are at risk in Wollongong. If you tell your model that we are going to have full employment and then 20,000 jobs go down, it says, 'Oh, well, jobs are going to go up somewhere.' That is a function of the flawed model that this absolutely flawed government have put together: 20,000 jobs go down over here, so 20,000 jobs must go up over there.

The only category that was left where jobs could go up was 'green jobs'. So if we are going to have jobs lost everywhere, as the coal industry, the steel industry and a whole range of other industries say, and if you cannot find another category for jobs created, the model says, 'Oh, well, it must be green jobs.' Then the government say, even though it is a function of the way the model was put together: 'Look at this! Isn't this great? We're going to have all these new green jobs,' not telling people who are not diligent enough to look at the fine print that it was not a modelling result but a modelling assumption. They have not modelled the impact on jobs. They have not modelled the impact on regional Australia. In fact, they say it is too hard, too difficult. A number of witnesses before our particular committee inquiry said it can be done and there is absolutely no difficulty. In fact, the New South Wales government commissioned Frontier Economics, who did exactly that work. Frontier Economics, who used exactly the same modelling methodology and exactly the same databases et cetera were able to do the work that this government refused to do.

I say it again: compared to the reference scenario, the Rudd government's scheme will actually make things worse for the global environment, not better. Let us reflect on this for a moment. If there was a price on carbon in Australia in

isolation of what is happening in the rest of the world, what would that mean for the LNG industry, for example, which could prosper here in Australia under a global agreement? We have a lot of untapped gas reserves which could contribute to a reduction in global greenhouse gas emissions by displacing coal fired power stations in China and Japan. Yet under this scheme the LNG industry is going to be worse off than all of the competition it is facing from companies overseas that are not facing the same cost. We could have the trifecta—good for economic growth, good for jobs and good for the environment. Surely a scheme introduced by a government in Australia should make it easier for such an industry to develop, to grow and to prosper, rather than make it harder. This scheme is going to make it harder. We are going to tie our hands behind our back, rather than doing everything we can.

I will put a few facts and figures around this. For every tonne of additional emissions in Australia through the production of LNG, we can achieve a reduction in emissions in China of 5½ to nine tonnes and a reduction in Japan of 4½ tonnes. So, if your objective truly was to reduce global greenhouse gas emissions, rather than political grandstanding, and if you were really focused on reducing global greenhouse gas emissions, wouldn't you design your scheme such that the Australian LNG industry could grow and prosper so that we could maximise our potential to reduce global greenhouse gas emissions? But, no, we have not done that.

Let us go to steel, cement and other industries. An industry in Australia which is at world's best practice environmentally—that is, the best in terms of having the lowest level of emissions for a particular activity, compared to any other company or business conducting a similar activity anywhere else in the world—will face a cost not faced by any of the others, including the more polluting businesses in overseas jurisdictions. They will be less competitive, so they will get less business. The businesses that are going to get the business are those that are more polluting, and the businesses that are going to grow are the businesses that are more polluting. The businesses in Australia that are operating at world's best practice environmentally will not do well. That business will get shifted to businesses that are more polluting. That will result in more greenhouse gas emissions—as a direct result of what we are trying to do over here.

A particular witness, Spitfire Oil, appeared before the fuel and energy committee. They said: 'We've got this great new technology, this great new process, which actually will help to have a significantly lower level of greenhouse gas emissions around oil production. However, we won't be able to get it off the ground because we'll be competing with imports that are going to be more competitive. Even though we're much more environmentally friendly and even though our emissions are significantly lower, we're still going to have to pay a price for carbon that others overseas won't have to pay.' So, for businesses that are more environmentally friendly and that are trying to pursue new technology, you are actually going to make it harder to compete with more polluting businesses, as a direct result of what is being proposed here. In fact, that particular enterprise, which is a very creative and innovative enterprise, is looking at relocating offshore. Australia is probably going to lose that particular enterprise, Spitfire Oil.

Senator O'Brien interjecting—

Senator CORMANN —I invite you, Senator O'Brien, to have a very close look at what they do because they are researching some very good technology which will be very environmentally significant. Yet if this Carbon Pollution Reduction

Scheme comes into play, that will be the end of it for Australia—it will be the end of it.

There are some basic principles to understand. The Europeans understand them and the Americans understand them. People keep pointing to Europe: 'They have had an emissions trading scheme and the world has not fallen apart over there.' Let us just start off by noting that when they introduced their emissions trading scheme they provided more permits than there were emissions at the time. That was the way Europe started off. But then let us just note that their emissions-intensive trade-exposed industries—their export industries—are 100 per cent protected. In Australia we are saying, 'Oh, well, the LNG industry'. In the end, after a lot of public debate, the government said, 'We will give you 60 per cent free permits, which over a period of time are going to go down.'

Some other industries were given 90 per cent free permits, but when you actually look at the way it is calculated and go through the ins and outs of it—activity based definitions and all of the bureaucratic mumbo-jumbo—this is a very complex, very bureaucratic scheme. It is very difficult to get your head around it. The bureaucracy and the red tape that is going to be built around all of this is just incredible, if this ever gets up. But the government says, 'Ninety per cent free permits are here', but in the end clearly we are talking about 60 or 63 per cent of permits. So there is going to be a significant cost. The government is aiming to raise \$25 billion through all of this. It is a cost that has to be borne by business across Australia—a cost that is not going to be borne by competitors overseas.

Has the government actually set itself a target as to how much it will reduce global greenhouse gas emissions as a result of this measure? No, it has not. Very specifically, I asked an official from the Department of Climate Change and Water at the table at a Senate committee hearing, 'Can you point me to where in any of your legislation, policy documents, green papers or white papers there is a target as to how much you want to contribute through this scheme to reduction in global greenhouse gas emission?' There is no target. There is no target as to how much this proposed scheme for Australia will contribute to a reduction in global greenhouse gas emissions. The reason is this government knows what we know: it knows that this scheme is not going to reduce global greenhouse gas emissions, yet it is quite prepared to impose the economic cost and the sacrifice on people right across Australia. It is flying blind.

Let us just reflect on the modelling that was done by Treasury. Treasury went through this political exercise: 'We have got to send this message out there.' The objective of the exercise was, 'Let's go through some modelling so we can send a message out there that the impact is not going to be so bad. It is just going to be a small impact. You can just sort of squeeze it in—softly, softly, don't worry, she'll be right.' Except that is not the case when you start scratching the surface.

We commissioned a peer review of the Treasury modelling and Dr Brian Fisher had a look at it. Dr Brian Fisher asked for access to a whole heap of information, which the government decided to keep secret—but I will get to that in a minute, because it is quite incredibly contemptuous how the Treasurer has handled successive orders of the Senate and legitimate requests by the Senate Select Committee on Fuel and Energy in relation to that information. But this is what Dr Fisher concluded in terms of the Treasury assumptions of its modelling: its international action assumptions are highly optimistic—and I think that has been widely canvassed; the emission-pricing and permit-trading assumptions bias the results toward artificially low costs of mitigation, with Treasury assumptions, 'which virtually guarantee that the permit prices from the modelling are

unrealistically low' and the electricity sector transformation assumptions appear to underestimate significantly the cost and structural adjustment challenge of moving to a decarbonised electricity generation sector.

In fact, the Treasury modelling assumed there would be an absolute immediate transition, totally ignoring the capital intensity of power generation and completely ignoring the replacement costs and the transitional issues involved with moving from one method of power generation to another. The Treasury modelling assumed that there would be seamless transition. Anybody who knows anything about electricity and power generation knows that there is not going to be any seamless transition should this scheme come into play.

Senator O'Brien interjecting—

[Senator CORMANN](#) —I can understand why Senator O'Brien is embarrassed by the scheme that his government has put forward for consideration of the Senate. I can well understand why Senator O'Brien is embarrassed. But the reality is this: we have got before us a scheme that is flawed. We have got before us a scheme that will not make any difference to the global environment. It will not reduce global greenhouse gas emissions. It will cost jobs. It will put pressure on the economy. It will put pressure on regional Australia.

Has this government done its homework? Has this government properly assessed what the impact on the economy, on jobs and on regional areas is going to be? No, it has not. Do not take my word for it; do you know what Paul Howes from the AWU said about the Treasury modelling? They are very quiet over there because they know what the answer is. He said it was inadequate. The Treasurer needs to do some more modelling, in particular, given the current global economic downturn and conditions.

Do you know who else said this modelling was inadequate? ACOSS—hardly climate change sceptics or climate change deniers or conservative acolytes. They cannot be accused of doing the bidding of the Liberal Party, surely. ACOSS, AWU and the CFMEU; we had witness after witness that said the Treasury modelling was inadequate and that more modelling was required.

As a committee, we were actually trying to assess and go a bit deeper. We were trying to do the work of the government. As a committee, we wanted to know what the impact was going to be on jobs—not just a fake, flawed modelling assumption that there will be full employment. We wanted to know what the impact was going to be on jobs and we wanted to know what the impact was going to be on regional Australia. So we said to the government that we would like to get access to the underlying information—the model codes, databases and a series of other things.

The Senate Select Committee on Fuel and Energy first wrote to the Treasurer on 8 December 2008. It took the Treasurer nearly three months before he got back to us. Do you know why he got back to us? Because we had given notice of a motion in the Senate ordering him to provide that information. He ignored the first order and came into the chamber with the flimsy excuse that in his view it was not in the public interest for that information to be released and it was about the contractual obligations of the Commonwealth. We got back to him and said that parliamentary privilege overrides the contractual obligations of the Commonwealth—which the government well knows. We went backwards and forwards.

In the end, they claimed commercial harm would be caused to two external consultants they had contracted. We made another order. The committee and the Senate bent over backwards to accommodate the legitimate issues that were raised in relation to commercial harm, insofar as we considered that they were legitimate. We ensured that the information could have been provided in a very confidential way to the Senate committee. Any breach of that confidentiality as per the order would have been a breach of parliamentary privilege and a criminal offence.

Monash University was one of the two external consultants. The Treasurer tried to hide behind the excuse of Monash University to cover up the modelling information that we needed to assess the impact of the government's flawed scheme on the economy and jobs. But Monash University said, 'We're quite happy for you to have it; we're happy to waive confidentiality.' They even wrote to the Treasurer and said, 'We're happy to waive confidentiality based on the provisions in that Senate order.' What would you expect me to do then? Of course I wrote to the Treasurer. We were in a good position: an order which requires the government to produce a particular piece of information and the statement from the consultant, Monash University, who provided most of the information that the government was sensitive about. We wrote to the Treasurer on 17 March and said, 'Please give us the information.' It was another three months before I got a letter back. Do you know when I got that letter back? The day after I gave notice of another motion. It was hand delivered to my office.

As the chair of a committee of the Senate, I had to wait six months to get information that we legitimately requested from the government. What has the government got to hide when it comes to the impact of its Carbon Pollution Reduction Scheme on the economy, on jobs and on regional Australia? Why is the government not forthcoming in providing the information that it was properly requested to provide by a committee of the Senate? Commercial harm was claimed in relation to one aspect of it. But there was a whole range of other information that we asked for—information critically important for us to make a proper judgment about the impact of this scheme on the economy and on jobs.

The government was trying to bully us into dealing here with it now and, yet the handling of this process by the government has been a farce. Remember the announcement by the Treasurer on 12 February of a new inquiry by the House of Representatives Standing Committee on Economics into the choice of an ETS? That was obviously about the battle that was going on between Senator Wong and Minister Ferguson—between the believers and the realists in the cabinet. Those who heeded the comments by industry in January-February, given the worst economic crisis since the Great Depression, as the Prime Minister kept reminding us at that time, thought perhaps we should have another look at what is being proposed. So on 12 February there was the announcement of a new inquiry, into the choice of an emissions trading scheme. But on 19 February the inquiry was canned. They were all over the place. Then there was the announcement a couple of weeks ago: 'We are going to delay it by a year.' Anybody who suggested a year ago that it should be delayed by a year was a heretic, a non-believer, a climate change sceptic. This is beyond a joke. What we have been asked to consider today is a bad scheme and a flawed scheme. It will not reduce global greenhouse gas emissions. It will cost jobs. It will put pressure on the economy. It will put pressure on regional Australia. We should not support it if the government forces it to a vote now. We should wait for Copenhagen and see what the rest of the world is doing.