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Same Targets: Different Paths – Kevin Rudd's Great Big New Tax Vs Direct Action

The Challenge: Points of Agreement

Australia and the world face a genuine challenge to arrest the growth of CO₂ and other Greenhouse Emissions.

On that there is real agreement between the two sides of politics, although it should be recognised that over 3 million Australians take a different view to the policy position of the major parties.

Nor is there disagreement over the targets. Our commitment to the 5% reduction on Australia's emissions is the same as the Government's, as is our commitment to the terms and ranges for the 15% and 25% targets.

The Government wants this to be a debate about belief and about targets because it is afraid of a debate about two plans: Direct action or an enormous electricity and grocery tax as the means to achieve the same objective.

- It is not a debate about belief.
- It is not a debate about targets.
- It is a debate about the costs to the economy and the costs to individuals of the two approaches.

It is a debate about the right system for the right time in history, under the right circumstances. The choice of system is the choice between a toxic drug that affects the whole body and laser surgery.

1. Costs to Australia of the ALP's Enormous Electricity and Grocery Tax:

1.1 \$114 billion tax and loss of jobs

The scheme relies on driving down emissions indirectly by driving up the price of electricity and related goods such as groceries. It uses an indirect method of reducing emissions. As electricity is largely an in-elastic good it requires enormous pain to achieve modest reductions.

- \$114 billion over 9 years for the ALP system compared with \$10.5 billion for our Emissions Reduction Fund.
- **\$40 billion over 4 years compared with \$3.2 billion for Direct Action.**

There will also be enormous impacts in terms of jobs – Access Economics in a report prepared for the State Governments highlighted the loss of 126,000 regional jobs under Labor’s scheme. Despite changes the regional job losses remain a huge human toll.

In this context the Prime Minister wants to tax Australian production in the absence of genuine global action – meaning both Australian jobs and emissions will go overseas. This would be harmful to our economy whilst doing nothing for the environment.

This will simply transfer jobs overseas because of the deadweight cost of a scheme which our competitors do not have.

1.2 Highly Inefficient Cost of Abatement

The reason that the Rudd scheme is so expensive is simple:

- It is not targeted.
 - For example:
 - In 2019/20 the scheme will raise \$15.9 billion. It will abate 140 million tonnes of CO2 equivalent. The effective abatement cost will therefore be over \$110 per tonne.
 - **In 2011/12 the Government’s tax will raise \$4.5 billion to reduce emissions by 13 million tonnes. This is a staggering figure of over \$340 per tonne.**
- Surely there must be a more effective way to reduce emissions than raising \$4.5 billion to reduce 13 million tonnes.
- That is why we worked with firms to identify low cost abatement. We only needed to identify 140 million tonnes of abatement. Instead we identified 208 million tonnes of abatement at a weighted average cost of around \$12 although in the paper we have allowed an average abatement price of \$15.
 - In short, the Emissions Reduction Fund will make sure that every dollar is spent directly on reducing emissions.
 - We use the advantage of our soils so as to kick start a once in a century replenishment of our soils.

1.3 Direct Action offers a Faster Start

Under the Government's scheme we know that they will produce 13 million tonnes of saving in the 1st year. The Parliamentary Library then calculates, using the straight line method and drawing from the Tracking to Kyoto Document that the total 4 year abatement will be 13, 20, 33 and 48 million tonnes per annum or 114 million tonnes.

The reason why the 2nd, 3rd and 4th years have to be estimated is that the Government has failed to release its revised modelling as promised. Nor has it released the Morgan Stanley Report into the power sector or the costs of going it without a US system which looks increasingly unlikely in the near term.

By contrast, the Direct Action model, at the conservative figure of \$15 per tonne for simply buying abatement directly produces: 20 million tonnes for \$300 million in 2011/12, \$500 million for 33 million tonnes in 2012/13, \$750 million for 50 million tonnes in 2013/14 and 67 million tonnes for \$1000 million in 2014/15. All up, abatement is expected to be 150 million tonnes under Direct Action in the first 4 years.

Our conservative expectation is that we will reduce emissions by 36 million tonnes more than the Government in the first 4 years.

Thereafter we will track at the same projected abatement level as the government.

We will keep the extra 36 million tonnes as a safety valve in case prices are higher than projected in the last three years of the scheme but our strong expectation is that the lifetime pricing estimates will hold. We would therefore retire any surplus abatement as a gift to the planet.

By contrast it is the enormous deadweight cost of the ALP scheme which flows through to families and small business

2. Costs to Families and Small Business

2.1 Costs to Families

The ALP's great big new tax will impose massive costs on Australian families and small businesses.

By Kevin Rudd's own admission electricity prices will increase by 19% in the first two years of his ETS.

- On Tuesday last week he told the Parliament that electricity costs would increase by 7% in 2011/12.
- **On Wednesday he was forced to admit that costs would increase by 7% in 2011/12 and an extra 12% the following year.**
- **We still don't know how much costs will increase in the third year.**

However, the New South Wales independent pricing authority, IPART, has said that electricity prices will rise by up to 62% over three years – a third of which will be as a result of the Government's ETS.

What do these and other price rises mean for Australians?

Nearly half of all Australian households will be worse off. On Monday night Senate Estimates heard that 4.2 million households will be worse off under the Government's scheme – and that is the best case.

- For a married couple with say a senior teacher as the sole breadwinner on \$75,000 they will be \$418 worse off.
- **For a dependent couple with perhaps a police officer as the breadwinner on \$80,000 they will be \$545 worse off.**

And it is not surprising as they will suffer the pass through of prices from business. Government documents assume full electricity price pass through.

Perhaps most disconcertingly, as the Treasurer said on 16 November last year: **"We can't guarantee that no-one will be worse off."** All it takes is a cold climate and thin walls and a high heating bill could do real damage to a pensioner in Launceston, Cooma or Jindabyne for example.

2.2 Small Business

Australia's 750,000 small businesses will receive no direct compensation for the massive jump in electricity prices from the ETS. This means that jobs will be lost and the price of consumer goods will go up. The mysteriously named CCAF is in the same form as the Home Insulation and Green Loans Programs.

A dry cleaner in Queanbeyan for example could see their electricity prices go up by 20% from \$15,000 to \$18,000. This \$3000 will either have to come from the owner or from the customers. Either way, it is not a good news story for the battler, be they the shopkeeper or the shopper.

In addition to the work of Access Economics, Concept Economics concluded that there will be 23,510 fewer jobs in the mining industry alone by 2020. Frontier Economics identified 45,000 jobs lost in high-energy intensive industries.

These are real risks to small business and larger employers and therefore to workers around Australia.

3. Fairness and Simplicity

3.1 \$40 billion to Business for doing nothing

Kevin Rudd says he will make polluters pay – but what he won't tell you is **that he plans to give Australia's polluters up to \$40 billion in handouts even if they don't reduce emissions.**

- By contrast under the Coalition’s Direct Action approach **every dollar goes to directly reducing emissions and not one dollar goes to business as usual.**
- Under the Coalition’s system, **every dollar spent in achieving the 5% or 525 million tonnes target will be spent on reducing emissions in Australia.**
 - Under Labor’s scheme in 2020 alone, over \$1.6 billion will be spent buying 46 million tonnes of foreign permits.

The reason of course that the compensation is needed is because the ALP scheme places a heavy burden on our export industries. These firms cannot pass on the cost when they are competing against resources from Indonesia or the Middle East which do not have such a cost, or manufactured goods from the USA or China.

In short, we put our export and import competing sectors at a disadvantage and then have to compensate them. Both parts of the equation seem bizarre and no wonder that the public is confused that \$40 billion is given to our biggest firms for business as usual – and all because the Rudd Government has created a trap for our economy.

3.2 Simplicity

The Coalition’s Direct Action approach is simple by comparison with a system which needs \$4.5 billion to reduce 13 million tonnes of emissions and then has to compensate everyone involved but no one perfectly.

We create an Emissions Reduction Fund which establishes a market for the lowest cost Abatement.

It is an incentives-based mechanism rather than one based on massively higher electricity prices. It is carrot rather than stick by choice while using a market for lowest cost abatement.

It is capped so that there can be no funding blow outs, has been independently verified and it is conservative in its estimates.

We have unashamedly tried to source the cheapest abatement because once verified, a tonne of carbon is a tonne of carbon. And that is all that the planet knows.

As the former Queensland ALP Treasurer David Hamill points out in a letter I am releasing today (which strongly supports the Coalition’s approach), the Coalition’s Abatement Model “is not inconsistent with the incentive based Clean Development Mechanism.”

I would like to say that we invented the incentive based Abatement Fund – alas and inconveniently for Mr Rudd, the principal emissions mechanism for the entire globe is already an incentives based Emissions Reduction scheme.

By comparison, it is no wonder that the ALP does not understand their own scheme.

In the space of 24 hours Kevin Rudd, Julia Gillard, Penny Wong and Greg Combet were all asked to explain the impact of Labor’s great big new tax on ordinary Australians, and they all failed to do so.

In summary, the Government's ETS:

- is a great big new tax on the Australian people;
- will raise prices for virtually all consumer goods and services;
- will hurt Australian families and small businesses by drastically increasing electricity costs;
- will cost jobs;
- is impossible to understand and has not been adequately explained by the Government;
- ignores real environmental concerns; and
- creates a money-go-round to be administered by a huge new bureaucracy.

The Coalition's Direct Action Plan

The Coalition's climate action policy provides incentives for Australian families and businesses to reduce their carbon emissions and focuses on meaningful, effective and direct action to improve Australia's environment.

Our incentive-based approach will reduce emissions as well as address some of Australia's serious environmental problems.

The Coalition's direct action takes advantage of Australia's natural advantages: soil and sun – both of which we have in abundance.

The Coalition's direct action plan is careful, costed and capped – reducing emissions without a tax on everything.

These measures are based on incentives rather than penalties, including initiatives such as:

- an Emissions Reduction Fund to provide direct incentives to industry and farmers to reduce CO2 emissions;
- a once in a century replenishment of our soils through investment in soil carbon;
- a New Solar Sunrise for Australia – \$1,000 rebate for either solar panels or solar hot water systems for Australian homes, \$100 million for our Solar Towns and Solar Schools Initiative, and \$50 million to a Geothermal and Tidal Towns Initiative;
- a Green Corridors Initiative that will see 20 million trees planted by 2020 to re-establish urban forests and green corridors;

- development of the La Trobe Valley, Hunter and Central Queensland regions as Clean Energy Employment Hubs;
- initiation of a study into replacing high voltage overhead cables in our cities with underground cables; and
- provision of support for large-scale renewable energy generation and emerging technologies through the RET.

If you can reach the same 5 percent target as the Government through our direct action which is careful, costed and capped, why would you need to raise \$114 billion?

If you can get the same cuts to emissions as the Government through direct and practical action, why would you proceed with a \$114 billion churn that will raise the cost of living for Australia families?

In summary, the Coalition's policy:

- costs substantially less than the ETS – our policy will cost \$3.2 billion over 4 years, while the ETS will churn \$40.6 billion over the first 4 years;
- will achieve the agreed target of a five per cent reduction in carbon emissions by 2020 and is flexible in the event of any changes in international circumstances;
- focuses on practical, effective and direct action on climate change within Australia;
- provides tangible environmental benefits;
- provides incentives to reduce emissions within Australia;
- is not a new tax on Australian families, businesses and industry;
- will not cost jobs or hurt Australian businesses; and
- will not increase electricity and grocery prices.