

## **No Future for Manufacturing with Carbon Tax and Renewable Energy Costs - Address to the Institute of Public Affairs - Melbourne - 28th September 2011**

I know what manufacturing requires to survive in Australia.

I was there when we manufactured products for the domestic market.

I was involved in manufacturing at a time when you stepped out of the plane in Sydney and there were wall to wall factories from Ascot and Alexandria to Surrey Hills. They were making and selling Australian products – supplying the domestic market.

I was a manufacturer's agent representing small factories. When my former associates and colleagues took hardware samples over to China and imported back copies to sell on the domestic market. They made heaps. They retired wealthy men while I'm still plodding along in the senate.

I've seen the decline in Australian manufacturing.

Initially, I was a doubting Thomas and I wondered how hundreds of thousands of Australian process workers could be employed. Then nearly at the same time the mining industry grew and flourished and provided prosperity and employed a lot of Australians.

So it's not surprising when the Carbon Tax was placed on the agenda, I read the danger signals for Australian industry. These signals increased when it became obvious America would not enter into a Global carbon agreement.

After Copenhagen it was obvious that only the EU would have a Carbon Tax. It became clear that for Australia to have a unilateral position on a Carbon Tax that would not only destroy what was reduced but an effective manufacturing and processing sector.

The Aluminium, Steel and Cement industries were going to be hit badly. The Grocery industry that employs 290 000 people, many of them in regional Australia, would be hurt.

It became obvious that someone had to bell the cat. I asked the first question on Carbon Tax on 13<sup>th</sup> September 2008. I made the first speeches in parliament, I wrote to every member of the Business Council of Australia. I warned them of the dangers of a Carbon Tax and told them to stand up and oppose the Tax and not simply accept it as the inevitable.

The message I got back was 'we want certainty'. Parliamentary liaison officers were sent to my office to tell to calm down.

The IPA saw the threat the Carbon Tax imposed on Australia's economy and was out of the blocks in opposition right from the start. Then other industries found when they modelled a Carbon Tax to their own balance sheets it was catastrophic not only for them but for the total Australian economy.

Inch by inch Australia woke up to the Great Carbon Tax hoax. While, the business sector were doing their sums, the punters were doing theirs also. Electricity prices were being driven up through incentives like Gross Feeding Tariffs demanded by the Greens on Solar Panels. Government's were paying 60 cents per kilowatt hour for electricity that could be bought at 19 cents.

This was a reverse Robin Hood scheme where the people that could afford Solar panels on their roofs were subsidised by the less wealthy, as their electricity bills went through the roof. As one man's subsidy became another man's penalty.

They rightly asked themselves 'if electricity prices are going up, what will they be with a Carbon Tax?'

They also asked, as the effect of the Caron Tax became clearer to them, 'why should we kill our economy when we are responsible for 1.4% of world emissions?'

They realised that there was absolutely no point in this and the scheme wouldn't fly unless the rest of the world went along with it.

The government has modelled that by 2016 the rest of the world will meet their carbon commitments with all countries doing their bit without a Carbon Tax or a Trading Scheme. And there will be no job losses. Treasury have been forced to admit, after questioning, that in their modelling they made the assumption that pricing Carbon emissions would not increase unemployment.

We've written to the Treasurer and asked for the model, asked questions in the Senate inquiries and been told the model is available. But when people have requested it, Treasury has told them that the model is unavailable. Again on Friday we asked that the model be released and were told that Treasury would have no objection. We know that many interested parties will try and obtain the model this week, but I suspect it won't be released.

If the model supported the Government's conclusions that there would be no jobs lost and the rest of the world would conform by 2016 and their economic assumptions would hold up under scrutiny, you could be assured it would be letterbox dropped to every household in Australia in a shiny glossy brochure.

Two of Australia's leading economists, Henry Ergas and Warwick McKibbin have written articles in The Australian and the Financial Review stating the model is a public document paid for by public money and needs to be released before any government conclusions can be endorsed.

The Government's predictions and assessments of a Carbon Tax cannot have any credibility without independent assessment of that model.

Both the business community and the Australian public realise that a Carbon Tax is nothing more than an expensive and meaningless gesture that cannot achieve anything unless the rest of the world goes along with it.

The world is not.

About five months ago I warned the Labor party to disengage from the Greens, their vote was 34% at the time. I told Parliament that if you continue to govern under the Green alliance that pushes a higher Carbon Tax and increased renewable energy quotas your vote will bottom out at 25%.

The Labor vote is at 26%, it's time that I recalibrated my predictions downwards.

And yet we see the government not only persisting with a Carbon Tax but continuing to push renewable energy in their propaganda campaign that was distributed to every household. With statements like –

'Get energy for free...'

'Other countries were doing it because they care for the environment...'

'Putting a turbine up in the air and letting wind give us power has to be a better option...'

‘You’ve see the amount of money Germany’s thrown to research...’

Each of these statements have been made by a person who derives their income from Government subsidies or grants. It is in their vested interest to talk renewable energy up; it is grossly misleading.

Over 13 billion will be invested in clean energy projects. The Greens have demanded a Carbon Bank worth 10 billion dollars, that was the quid pro quo, then to accept a low entry Carbon Tax. Remember Senator Milne put this on the Greens shopping list last year. A Clean Energy Finance Corporation will be established to drive innovation through commercial investments in clean energy through loans, loan guarantees and equity investment.

These commercial investments will only work if heavily subsidised by renewable energy certificates. The REC’s will reach somewhere up to \$60-\$70. It would be a brave investor that relies on a government subsidy by applying a penalty to the users of domestic and industrial power to get a dividend.

As well as the clean energy corporation there will be a statutory body created ‘the Australian Renewable energy Agency’ to coordinate around 3.2 billion in existing grants. The government’s plan is expected to drive 20 billion dollars worth investment by 2020 - in today’s dollars.

The 20 billion will have to be subsidised by working families, Australian industries and mining. Every time a light is used, a machine is used – the subsidy for renewable energy from a productive sector transfers to a government subsidised renewable energy.

Renewable energy is anything but cheap. Renewable energy is a sinkhole for hundreds of millions dollars of taxpayer funds that are spent on high-risk ventures. The notion that renewables are a yellow brick road to jobs is a travesty of truth.

I’d like to point out that Germany is painted as the ‘Emerald city’ for renewable energy and jobs.

While employment projections in the renewable sector convey seemingly impressive prospects for gross job growth, they typically obscure the broader implications for economic welfare by omitting any accounting of off-setting impacts.

These implications include, but are not limited to, job losses from crowding out of cheaper forms of conventional energy generation, indirect impacts on upstream industries, additional job losses from the drain on economic activity precipitated by higher electricity prices, private consumers' overall loss of purchasing power due to higher electricity prices, and diverting funds from other, possibly more beneficial investment.

Significant research shows that initial employment benefits from renewable policies soon turn negative. A critical review of Germany's renewable energy regard the country's experience as a cautionary tale of massively expensive environmental and energy policy that is devoid of economic and environmental benefits.

In the case of Solar Photovoltaics, Germany's subsidization regime has reached a level that far exceeds average wages, with per worker subsidies as high as 175 000 euros (US \$240 000). The amount of electricity produced through Solar Photovoltaics was a negligible 0.6%.

A Madrid University study shows that for every job created in alternative energy in Spain, 2.2 jobs were lost. The premiums paid for solar, biomass, wave and wind power, which are charged to consumers in their bills, translated into a \$774 000 cost for each Spanish 'Green Job' created since 2000.

We are told by the government that China is the paragon of virtue when it comes to renewable energy. In a recent Senate committee, I asked the Department of Climate Change how the following statements on the Government's Clean Energy Future website could be accurate. Their statement read -

'According to the international agency over the last 20 years China has reduced their amount of Carbon pollution more then any other major economy. As a developing country its efforts to limit emissions have been substantial.'

'When China's coal use had increased by the total production of Australia's coal output in one year...'

'In 2021 China will replace Australia's projected emissions reduction, 57 million tonnes, in just over one day.'

Between the time I asked the question and gave that statement, the Clean Energy Future website had been changed to the following -

'According to International energy agency in the last 20 years China has reduced the amount of carbon pollution per unit of GDP faster than any other major economy.'

The fact that the statement had to be changed immediately after I questioned it, doesn't give you a lot of faith in what's happening in China or in the Climate Change department for that matter.

In China, the state Electricity grid has declined to connect any new wind farm since May 5<sup>th</sup> 2011. The China Daily has reported 1346 wind turbines have been disconnected from the power grid since April.

Green World Investor Magazine states that the Chinese Government controls most of the funding through its massive state owned bank and it gives a number of incentives to industry – as well as removal of tax breaks, cheap land and easy loans. It would be difficult for even the bigger wind companies to survive, let alone the small ones.

The United States is also losing its infatuation with wind power. In 2009 installed wind power capacity was 1010 megawatts. In 2010 it had almost halved to 5116 megawatts. A new study by the Texas controller Susan Coons found that tax breaks awarded to 63 wind farms averaged almost 1.6 million per job compared with \$166 000 to \$188 000 per manufacturing job.

In England Sir John Banham, knighted for his services to British business, says we 'should stop subsidising very wasteful technologies like offshore wind and solar farms which we can't afford, for no noticeable improvement in the world's climate. The subsidy is of the same order of magnitude as our national defence budget, it's simply something people won't stand for.'

Just as overseas countries are starting to learn from excessively expensive mistakes Australia emerges as a new promised land for wind operators. Renewable Energy Certificates programs in Labor's 20% per cent renewables target held out the promise of a heavily loaded return on capital investment in the medium term as energy increased.

Australia is not learning from these costly mistakes overseas. We are repeating them here.

One of Australia's leading businessmen and former chair of BHP Billiton, Don Argus, has also questioned planned investment in renewable energy at the expense of increased gas infrastructure that is environmentally friendly and cheap.

Former Reserve Bank board member Warwick McKibbin also warned that the Carbon Tax package would waste hundreds of billions on renewable energy in a bid that would drive away Australia's competitive advantage of cheap fossil fuels.

Meanwhile back at the manufacturing ranch, leadringers like Paul Howes and Doug Cameron are pleading for its attention on the manufacturing industry's crisis status as the Labor government baulks at any suggestion of an inquiry. They have appointed Peter Beattie, paying him \$100 a day to save manufacturing. Good luck to him.

We've had Grocery Watch, Fuel Watch and now we have Peter Beattie Watch, which is costing us \$1000 dollars a day. The solution is staring them in the face – cheap energy is the only way Australian firms can survive in manufacturing.

It has always been part of Australia's competitive advantage imposing LRETS and SRETS on top of a Carbon Tax puts up power costs and drives manufacturing out of business. More than 105 000 manufacturing jobs have been lost over the last 3 years. This has reduced the number of manufacturing workers in Australia to under 1 million – the worst figure ever recorded by the ABS.

The latest census shows that business confidence continues to erode with a fall from a net 28% to 15%. The Government's renewable energy programs are hurting manufacturing.

Abattoirs are being slugged around \$19 000 a month for renewable energy costs on top of a Carbon Tax. The combined Carbon and Renewable Energy tax will total around 3 million dollars for some of Australia's large exporting abattoirs.

This year the renewable schemes will drive up the price of power by 7.2%. The price of power would rise by 10.13% by 2012. This would be on top normal power increases.

ACIL TASMING analysed the increased electricity costs of the Federal renewable energy target policy. The policy change from January this year to establish parallel large scale renewable energy target and the small scale renewable scheme will see costs to consumers increase almost 4-fold in 2011, from \$331 million to \$1.26 billion.

In 2012 costs are likely to increase over 3-fold, from \$444 million to \$1.36 billion due to the new policy.

The estimated cost for the cement industry will be around 6 million per year. The REC and Carbon Tax combined are equivalent to 7.5% of the industry's net profit in the first year and are projected 25% by 2020.

The Steel industry have already had to shed a thousand jobs without a Carbon tax.

The Aluminium industry have already had to apply for special exemption from the Government's renewable energy programs. You can't refine aluminium with windmill power.

The Australian's headline on the 23<sup>rd</sup> of August this year was "Julia Gillard links Carbon Price to a 'bright future' for manufacturing."

And what about the Green jobs we've been promised – The new Green Job bonanza? The operator of the nation's only solar panel manufacturing plant, Silex Solar, announced it would shut down, with the loss of 30 jobs.

Silex Solar has said Chinese imports flooded the market, driving down costs, and it was hard to compete with the lower wages and government assistance there.

Chinese dominance in solar supplies is even more empathetic with credit Suisse predicting that China's GCL-POLY Energy could have production capacity equal to two thirds of the entire Global solar panel market by next year.

If we can't support one factory with 30 workers making solar panels for greens jobs. Where is the 'bright future promised' by Julia Gillard?

The Gillard Government's Clean Energy Package big sell tries to seduce consumers with testimonials from people and organisations in the clean energy industry. What they don't tell you is the huge amounts of government largesse received by these promoters of government policy.

These companies receive hundreds of millions of dollars in government taxpayer funded subsidies to produce vastly more expensive power for their benefactor taxpayers.

Corporate welfare remains at the heart of the renewable energy industry.

The nation's biggest energy retailer, Origin, has warned that a key plank of Julia Gillard's Carbon Tax Plan – the creation of a \$10 billion 'Clean Energy Fund' – could force power costs even higher by providing new subsidies to the solar industry.

Consumers could be slugged with up to \$1.5 billion in extra electricity costs next year as the high Australian dollar and a flood of cheap solar panels from China sabotage the Gillard Government's push to take the heat out of its Renewable Energy Scheme.

The former Secretary of the Department of Climate Change, Dr Michael Parkinson, once famously projected that if you spent the \$200 billion or so that it could cost to put a solar panel array on every roof-top in Australia, you would save about 13 million tonnes of greenhouse gases.

That's abatement at over \$7000 a tonne.

The obvious question must be asked, if renewable energy does not reduce CO<sub>2</sub>, or if it does, the price is 3 or 4 times higher than a Carbon Tax. And that is wind generated electricity - 2-4 times higher in price than coal or gas.

What is the point in proceeding with this expensive, inefficient way of reducing CO<sub>2</sub> and generating electricity.

Ross Garnaut is certainly someone I don't like to quote, particularly in this company. But he's right about renewable energy. He says it's an 'inefficient way to reduce abatement' and every sensible economist in Australia agrees with him.

Renewable energy is expensive. But the Greens demand it. The Government believes that by applying a Carbon Tax to make low price energy dearer it reduces the difference in price between renewables and normal power. And that will make renewable energy more acceptable, that's contorted logic.

It's time both parties reviewed their position on this expensive non-performing source of energy.

The Labor party should abandon this policy in the interest of Australian industry. A Carbon Tax and renewable energy only puts lead in the saddle of the Australian economy.

The coalition must review this policy on renewables as a matter of urgency. Any policy that increases the cost to Australian factories, farmers and households without any benefits has no place in the Coalition's policy agenda.