The Closing Window: Implementing Effective Climate Policies

International Conference Victoria University City Campus Melbourne
Wednesday 7 September 2011

Green Growth: Building Skills, Creating Jobs and Strengthening Regions
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I could wallpaper one side of my office with reports about the millions of jobs that will be driven by the introduction of a carbon price. I could wallpaper the other side of my office with reports about the economic benefits, jobs growth and labour shortages from the resources super boom we are experiencing. In both cases great promises are made, great expectations created yet great disappointment ensues. In this contribution I want to make use of the comparison between the economic adjustment unleashed by a carbon price with that of the economic realignment created by the resources boom to demonstrate that the real world outcome is far from certain, little understood and in desperate need of complementary industry policy.

Clean Energy Bill

Obviously the key driver of change in the clean energy bill package is the price. There are no two ways about it the price will drive change. It will drive change by affecting the medium and long term investment decisions of the businesses who are liable entities. It will drive change notwithstanding the relatively soft start. Importantly it will drive change notwithstanding generous industry assistance that protects jobs.

As we stand here one year away from its implementation workers are being told about plans to introduce abatement measures at relatively low cost. Industries like mining, that are still running a multi million dollar campaign against a carbon price scheme, are unloading trucks carrying gas turbines for deployment in their methane rich coal mines. The word is out – we need to reduce our liability.

It will also drive innovation. The nation's bean counters and engineers are about to be unleashed on solving the new problem. That problem is how to avoid carbon permit liability. To date Australian management have suppressed innovation, preferring the lazy alternative of seeking to avoid the cost altogether. Again I will pick on the mining companies. Their permit liability largely arises from fugitive methane emissions in coal mines. The much-heralded $1billion Coal21 Fund remains largely unspent (10%) and has solely focussed on the disposal of CO_2 emissions from power stations. Not one cent has been spent from this fund on innovation that would reduce their carbon liability from fugitive methane emissions. Not surprisingly, that's about to change.

The same process will take place in much of the manufacturing sector as companies invest in measures to reduce liability. Cogeneration plants are standard off-the-shelf technologies that can materially affect permit liability.

In the agricultural and forestry sectors the opportunity to diversify business to take advantage of a new income stream is likely to overwhelm the natural inclination to resist change.

If you look at the electricity sector, most people have a good understanding of the role of a rising carbon price in influencing investment decisions of long-lived assets towards low emission alternatives. There is great potential for emissions reduction in this sector, but the change will be slow in a growing economy. The first thing people will notice is that the investment strike in power generation will end. Money will flow into new gas generation. The Government's plan is to enhance this effect with the 'contracts for closure' proposal– the buyout of 2000MW of production.

Likewise most people understand that the development of any emerging technology needs additional measures to realise commercial scale demonstration plants. We need these plants to assess the operational effectiveness and the real cost of competing emerging technologies. The CCS - Carbon Capture and Storage – and Solar Flagship programs are incredibly important in this regard and despite a series of budget cutbacks they remain an important source of funding.

As the carbon price worms its way through the rest of the economy the same process of innovation and cost reduction will take place with mixed results.

Complementary Policies

Environmentalists have hogged the discussion about complementary policies by focussing on the many other schemes that can contribute further to abatement. I support many of those policies but if you have a dual objective as I do of a 'low carbon, jobs rich' future then a different set of complementary policies is needed.

The introduction of mechanisms like the Clean Technology Fund and the Clean Energy Finance Corporation are a great example of complementary policies that drive the dollar further and drive the abatement potential further. They are also incredibly important 21st century versions of industry policy. They represent the great opportunity available, particularly to the manufacturing sector and the energy sector to drive the development of local industry and therefore local jobs.

This was noticeably absent as part of the policy response that led to the creation of the 20 percent renewable energy target. There was no accompanying industry policy and the result is there for all to see. We have driven offshore much of the solar industry. We continue to import the major components of wind turbines and are increasingly importing the structural steel. In the Clean Energy Finance Corporation and the Clean Technology Fund the Government has developed a modern approach to industry development to accompany the economic change driven by a carbon price. It's not a guarantee but it is an opportunity.

Jobs

As I said at the outset there are many reports with starry-eyed predictions about jobs growth in a low carbon world. Even left of centre advocates of this position appear to have blind faith in the 'invisible hand' of the market. Jobs won't appear out of nowhere. You have to make it happen.

Take the example of wind turbines whose market share is created by the Renewable Energy Target. Don't get me wrong I support the RET and a growing role for wind turbines . . . . but the major components are imported. The structural steel in the towers has been our best option to gain manufacturing jobs but Australian firms have been losing work to imports. The remaining job opportunities are the erection crew and a concrete gang. There is a small maintenance contract and no personnel in operations. Unless you count the guy in the ute picking up the dead birds.

Unions won't believe reports about job opportunities unless you can show us the policies that will make it real. That's why we're so pleased with $14 billion in innovation funding such as Clean Energy Finance Corporation and other such programs.

Regions

The regional impact of the carbon scheme is something else that can't be left to the 'invisible hand' of the free market. While the carbon price by itself probably won't adversely affect regional employment the fact is that the overall effort to reduce emissions might affect some carbon-intensive regions. If so, the standard government practice is to fund resumé writing classes, some half-hearted retraining, and little else. Whoever is in Government can expect a comprehensive campaign to achieve much more than that. In such circumstances there should be a Regional Development Plan developed through a well resourced Committee of stakeholders with a high profile chair whose charter is to diversify the affected economy while building on the region's core strengths.

Unless the 'contracts for closure' plan falls over, the only region certain to be affected is the Latrobe Valley. The local community and the unions have made it abundantly clear that the Government will have to invest heavily in time, commitment and money to achieve a decent outcome for the region.

The Latrobe Valley community knows what it's like to lose thousands of jobs with no jobs and industry plan. When the power industry was privatised they lost thousands of jobs – two thirds - that were simply not replaced by anything. They had the highest rate of unemployment and the highest incidence of many social problems for many years after. That private investors ultimately employed more people because they realized they had cut far too far didn't mitigate the immense pain that was first inflicted.

What's needed this time round is a guarantee of no forced retrenchments plus a plan to diversify and strengthen the region. If you are going to build gas-fired capacity, you must build it in the Latrobe. If the carbon price will eventually trigger investment in alternative uses of coal, find ways to bring that forward. If there is to be investment in Carbon Capture and Storage, the Latrobe Valley must be first cab off the rank. Ditto for solar thermal.

Significant employment opportunities exist in mine rehabilitation. Unlike most coal, Latrobe Valley coal is a 30 metre seam under shallow cover. That means the landscape will never be returned to its natural level. The community should be involved in deciding the future topography of large tracts of their land. This could be a significant opportunity to bridge gaps in employment opportunities.

Skills

The discussion of skills in a low carbon economy is usually hogged by training professionals who see it as an opportunity to get more government money for the development of competencies, training standards and training delivery. There is no doubt that any economy, low carbon or not, requires an appropriate training regime. Equally there is no doubt that new skills will be required – some in totally new sectors, some in existing sectors. It is equally true that many of the new jobs are the old jobs.

However, let's be frank about the skills and training system in Australia. It is woefully inadequate to meet the needs of the existing economy and there can be no confidence that it won't continue that inadequacy under a low carbon economy. We have a very patchy commercial building industry around the country. It's not booming. The apprenticeship training remains poor. We have terrific standards and competencies and training institutions but we are not meeting the skilled labour needs of an industry which is in slow motion. How could it possibly cope with fast growth?

'What about the resources boom?' I hear you say. Mining companies proudly boast that the boom is so big that they will require virtually all the tradespeople produced in Australia for the foreseeable future. Yet they train hardly any apprentices themselves. They poach from other industries. They always have. They boast about their large training budgets but it is largely professional development and skill upgrading of existing skilled employees. They don't grow their own.

The other big furphy in the skills debate is the amount of retraining needed for the transition. No doubt there will be a need to retrain a percentage of the workforce so that they can take advantage of emerging opportunities. However, in heavy industry the rate of change, where you have long lived assets that are going to be subject to investment decisions altered by a carbon price, will be quite slow. In many of these workplaces the older demographic means that you are really talking about equipping new entrants to the workforce with new skills. That is much easier to handle and is a further endorsement of the 'soft start' adopted by the Government.

The Resources Boom – the really big economic issue

There is $174 billion of firmly committed funds racing down the investment pipeline to build new resources projects. With another $256 billion of less definite projects queued up behind them. Principally these are LNG, iron ore and coal projects. They are mostly in WA, Queensland and some in NSW. The Australian dollar is traditionally seen as a commodity currency. When commodity prices are high, the dollar is high. Commodity prices have generally tripled and are likely to remain high for two or three decades due to the industrial revolutions in India and China. This leaves an Australian manufacturing industry that employs one million people at a severe disadvantage. Most manufacturers are geared for an exchange rate of 65 to 75 cents to the $US Dollar. The strength of the current resources boom is the greatest economic challenge faced by Australian employers. A two cent appreciation in the Australian dollar is more significant than the impact of the carbon pricing scheme.

Those involved in the carbon price policy debate are accustomed to seeing it as the most significant economic restructuring issue facing the country. It isn't. The resources boom is far more significant for the next two decades which is when the next fifty years of long term investment decisions will be made.

If this is the case then the jobs we can harvest out of the resources boom are just as important or more important than the jobs that are may be generated from a carbon price. We are not Europe. We have a fundamentally different economy to Europe. We have different challenges and opportunities. The Europeans can indulge their fantasy that mining and fossil fuels are a sunset industry, but in this part of the world the low carbon economy must coexist with a booming resources sector.

If the resources boom is allowed to kill off Australian manufacturing capacity then the potential for maximising jobs from introduction of a carbon price is crippled at the outset. It's the economy stupid!

Conclusion

If you're serious about introducing a carbon price to reduce emissions you have to bring the community with you. You can't do that with pious promises of jobs which may be a mirage. You can't deliver those jobs without a comprehensive suite of industry policies . . . . and even that won't work if you allow unconstrained resource development to hollow out the Australian manufacturing industry.