

Leader of the Opposition Address to Australian Industry Group Annual National Forum

**The Hon Malcolm Turnbull MP
Leader of the Opposition**

Thank you Kerry and Heather and Don. It is great to be here. Thank you very much for the opportunity to speak to your Annual National Forum. This is a most important event for one of Australia's most important business organisations.

When we think about the Government policies which will have the greatest impact on whether Australia emerges from the current global economic downturn in better or worse shape, a number of issues spring to mind.

First, the strength of Australia's financial system, which has weathered the storm better than almost any of its peers. Of course, this is largely a legacy of the robust supervisory framework left by the Coalition Government, indeed, set up by the Coalition Government. The only material way in which the Rudd Government has altered this has been through what has turned out to be an inept meddling with bank deposit guarantees.

Secondly, the strength of Australia's public finances. Now while the Rudd Government makes much of the fact that Australia is projected to exit the downturn with lower levels of public debt than many other economies, let's remember – and I don't think I need to remind this audience of this fact overly – let's remember that this largely reflects Australia's superior starting point from 2007, rather than any modesty or sense of proportion displayed by the current Government in its fiscal strategy.

And then there is the strength of Australia's ongoing commitment to further micro-economic reforms, which increase the efficiency of our economy and pave the way for productivity gains. The Government talks a good game about productivity but it has delivered precious little. In fact by re-regulating the labour market and pursuing its ill-considered award modernisation program, the Government is making our economy more rigid and less oriented towards job creation.

Now these are all very important issues and all issues where we expect business groups to take the lead in pointing out that policies framed with short term political expedience in mind are not necessarily the optimal approach if longer term economic prosperity is the objective. Indeed, evidence-based data-driven policy choices are far preferable as business groups have so often argued in Australia's past debates over economic policies, whether it's tariff reform, financial deregulation or indeed tax reform.

But of course at this time there is another economic issue that is currently topical and arguably of equal importance to how our economy emerges from the global downturn and evolves over the next few years. And that issue is, of course, the design of Australia's emissions trading scheme. We have to recognise that Australia is an energy intensive, export oriented economy. We have a comparative advantage in many of these industries based on cheap energy. It is also emissions intensive energy. So the debate over how our nation approaches the task of responding to climate change is especially pertinent to our economic fortunes over the next few years.

I'll come to the Frontier Economics report in a moment at some greater length but there is a table at the back of that report which is particularly instructive, and it shows the extent to which different economies, the ratio or the relationship between the emissions consumed in goods, and services for that matter, and the

emissions produced. And obviously those countries that are big exporters of raw materials with emissions intensive industries and manufactures, emissions intensive manufactures tend to produce more than they consume. The only developed countries that are in that category are Australia and Canada, and Canada only by a small margin. So Australia has a profile in terms of its emissions intensity and its trade exposure that is comparable to developing countries as opposed to the developed economies in North America and of course in Europe, not to speak of Japan.

This is very important. We are particularly vulnerable to putting a price on carbon even if it is done in the best designed and the most globally coordinated fashion. So a global price on carbon will nonetheless, if you imagine a perfect world, you know, a global price right around the world, it would nonetheless have a heavier impact on Australia than other countries because of the nature of our economy. And of course given we are not going to reach that carbon pricing nirvana any time soon, the design of our ETS is of critical importance.

Now we contend, and I believe your organisation contends, that the Rudd Government's ETS is flawed. We have put forward nine principles which we say the Government should adopt or recognise in order to fix up its ETS. Key among them is that an Australian emissions trading scheme should offer no less protections for jobs and industries than that proposed, and indeed that which is in the future implemented, in the United States.

Let me make a point about the question of timing too. The emissions trading scheme having been defeated in the Senate last week, the Government is now proposing to bring it back for a vote in November and this is obviously political timing because if it is voted down in November, then the Government will have a trigger for a double dissolution election which would enable them to go to the polls ahead of next year's budget. We believe, and I think most people who reflect on this issue, we believe that the best time, the appropriate time to finalise the design of this ETS – this is not to say that all discussion and debate should be suspended, far from it – but the time to finalise the design and indeed to vote on it should be after the Copenhagen Summit in December where we will know what the rest of the world has agreed to do or not to, and, in particular, after we know what the United States have legislated.

We have at the moment a bill that has passed through the House of Representatives which you'll read a lot about called the Waxman-Markey Bill. We expect the final outcome will be similar to that but of course the Senate, the US Senate, is developing its own bill and, assuming they can agree, they will have to come together in a conference and try to reconcile the two bills and come out with something that's agreed. Now that arrangement, that US emissions trading scheme, will undoubtedly be the global benchmark and it will be of enormous influence and it's simply not going to be credible or sustainable for Australia to have an emissions trading scheme that is materially at odds with the set up in the United States or indeed, in particular I should say, which provides less protection for jobs and industries in Australia than the US legislation does for jobs and industries there. And I mean a very good example, which you will have seen some debate about – and David Crombie from the NFF has quite a good little op-ed in I think the Fin Review today about this – under the Waxman-Markey Bill agriculture is excluded, agricultural emissions are excluded but there is ample scope for agricultural offsets. This is the ability, recognising the ability for agriculture and indeed land managers generally to offset CO2 emissions by enhancing soil carbon levels, reducing emissions from their farming operations, forestry, biochar, a whole range of measures – there's quite a long list in the bill.

Now that is an enormous advantage to American farmers. Many would say they are pretty well advantaged compared to ours already. That opportunity is being denied to Australian farmers under the Australian legislation. So whichever way you slice or dice this, cutting through the political rhetoric, the fact is that if Waxman-Markey became law tomorrow and Mr Rudd's ETS became law tomorrow, the American farm sector would have a substantial additional source of revenue which our law would deny our own farmers with whom they are competing. And you have to ask yourself, why would we do that. So that's just one example of many of the defects in the legislation.

Now as you know, a week ago we in the Coalition and Senator Xenophon released the modelling and analysis we commissioned from Frontier Economics. This work showed an ETS could be greener, cheaper and smarter, with the appropriate modifications and, in particular, by taking a different strategy towards the electricity generation sector rather than the remainder of the economy. So just treating the generators somewhat differently by only requiring them to buy permits for emissions above an intensity target and giving them credits for emissions if their emissions are below that intensity target. Frontier's work demonstrates that this will result in materially lower, dramatically lower electricity costs. In other words, it creates a much smoother transition to a low carbon economy.

Now, given that Frontier has past experience in designing and implementing a real-world ETS – this is the New South Wales GGAS scheme – in contrast, dare I note, to the Federal Department of Climate Change or the Federal Treasury – I mean Frontier has actually done it – you would expect their work to be treated with some respect and consideration. You would expect it would at least be read and studied and there would be a period of analysis and reflection before a view is expressed. But the immediate reaction of the Government was of course to denounce it, to say it was old hat, it was a mongrel scheme was the word Penny Wong gave to it – really extraordinary! All this without having read it.

Now, the fact is that right at the moment we have an emissions trading scheme that is still a work in progress. It was confirmed in the House only last week, in the same week that we were being called upon to urgently vote for the Rudd Government's emissions trading scheme, that it was still under construction. Negotiations are still underway with the coal industry – Australia's largest exporter. It is by no means settled how that industry is going to be treated under the scheme and of course because it is all done via the regulations, this doesn't impact on the actual statute, the bill.

As you know, Morgan Stanley has been asked to examine the devastating balance sheet impacts the proposed scheme will have on coal-fired power generators with a view to changing the compensation arrangements, so that too is up in the air. Most of the detailed regulations on how the various industrial activities are defined and compensated under the ETS remain unreleased. Rules for fewer than a dozen of what could be up to a hundred sets of sector-specific activity definition regulations have been finalised.

So when the Rudd Government says the Parliament must vote for its scheme, it really is asking the Parliament to vote for a framework, many of the most important details of which are as yet undecided. And indeed industry leaders – perhaps some of you in this room – have been told by the Government that if the US legislation comes up with a materially different arrangement to what we've got in Australia, the Government has said we can always change the regulations next year.

So really what the Government is asking the Parliament to give it is in fact a blank cheque. A scheme that is ill-defined, a scheme that is a work in progress and what has been lacking to date has been an informed discussion about policy and design. We have wasted far too much time, far too much time on debates about what I would call the theology of climate change – are you or have you ever been a climate change sceptic? If you do not sign up entirely to Mr Rudd's scheme, then you are a dinosaur, and you've seen the dinosaur ads on the television. Now this is all, you know, good theatre perhaps and light relief but what it has done is obscured a discussion about the design of the scheme.

The Frontier work, for example, showed that by treating electricity generation in the manner I described, retail power bills would only rise by about five per cent rather than the immediate 25 per cent price hike Labor's scheme would trigger. It obviously would then, as a result, reduce the need for compensation, reduce the need for churn. Rather than losing 26,000 regional jobs under the Rudd CPRS as modelled, Frontier's proposed changes would lead to net gains of 42,000 in employment in regional Australia. And overall the cost to the economy is dramatically reduced.

Now we look forward to having a meaningful, substantive engagement with the Government and with all interested parties but particularly with the Government over the design of the ETS. In our view, in summary, the best course of action is not to have a final vote on this scheme until early next year. We should obviously be debating this and exchanging economic modelling and getting the rocket scientists together so they can test their economic assumptions. We should do all that, absolutely, but we should not finalise the design until after Copenhagen.

If the Prime Minister continues to insist on this November deadline – which is all about politics, got nothing to do with policy – then we will seek to amend the legislation. We've indicated what we believe it should do, what we believe the amendments should look like in those nine principles, and we're obviously going to be very informed by the work that Frontier has done and those who disagree with the Frontier work, really the onus is on them to generate their own modelling which demonstrates where it's wrong. As I say, there is nobody better qualified – this doesn't mean they've got a monopoly of wisdom; no one does – but there is nobody better qualified in this area than Frontier Economics.

So I hope Mr Rudd approaches this issue with common sense and with a desire to engage genuinely with the Opposition to get the best outcome. And I will just in closing urge you and all other business groups like yourselves to engage actively in the policy debate, but engage actively and publicly. There is a tendency for business organisations to be covered by this Government and to just engage privately and behind closed doors in the hope that their eloquence will persuade the Government to change its mind.

We need to have a fully informed public debate and it has to get down now into issues of design. We have crossed the bridge and we agree – we crossed that bridge years ago – and we agree that Australia must take action to reduce CO2 emissions as part of an effective global effort. But the question of how we do it and the design of the scheme that does it is now the critical stage of the debate, and I'm afraid to say that debate has not been had anywhere to the extent that it should have been had given how imminent the re-presentation of the legislation is.

So thank you very much. It's been a great pleasure to be here.