

Check against delivery

THE IMPORTANCE OF GOVERNMENT POLICY IN ECONOMIC DOWNTURNS

THANK YOU ...

SETTING THE SCENE

IN RECENT TIMES THE PUBLIC POLICY DEBATE HAS, APPROPRIATELY, BEEN FOCUSED ON FISCAL AND MONETARY POLICY RESPONSES TO THE GLOBAL ECONOMIC DOWNTURN.

GOVERNMENTS AROUND THE WORLD HAVE MOVED TO STIMULATE THEIR ECONOMIES AND RESIST CALLS FOR PROTECTIONISM.

IN THIS CONTEXT THERE IS BROAD AGREEMENT THAT AUSTRALIA IS BETTER PLACED TO WEATHER THE DOWNTURN THAN MOST DEVELOPED ECONOMIES BECAUSE:

1. WE HAVE ENTERED THE SLOWDOWN LATER THAN MOST COUNTRIES
2. WE HAD SUBSTANTIAL BUDGET SURPLUSES GIVING THE AUSTRALIAN GOVERNMENT MORE FLEXIBILITY TO IMPLEMENT STIMULUS PACKAGES

3. OUR FINANCIAL SYSTEM IS WELL REGULATED AND OUR BANKS ARE IN FAR BETTER SHAPE THAN MOST DEVELOPED COUNTRIES
4. WE HAVE HAD CONSIDERABLE ROOM TO MOVE ON MONETARY POLICY AND THE SIGNIFICANT REDUCTION IN INTEREST RATES HAS BEEN TRANSMITTED TO HOUSEHOLDS MORE EFFICIENTLY THAN IN MOST OTHER COUNTRIES
5. WE ARE LIKELY TO BE AN EARLY BENEFICIARY OF ANY UPTURN IN CHINA'S GROWTH, WITH OUR TERMS OF TRADE LIKELY TO STILL BE ABOVE THE LONG TERM AVERAGE.

NEVERTHELESS THERE IS GENERAL AGREEMENT THAT AUSTRALIA IS IN, OR CLOSE TO, RECESSION AND THAT UNEMPLOYMENT WILL GET CONSIDERABLY WORSE.

WHILE MUCH OF THE GOVERNMENT'S FISCAL STIMULUS HAS BEEN WELL RECEIVED, IT IS VERY DISAPPOINTING THAT THE GOVERNMENT STILL APPEARS STUBBORNLY COMMITTED TO ITS 2010 CPRS (CARBON POLLUTION REDUCTION SCHEME) DEADLINE, DESPITE ITS OBVIOUS AND SERIOUS FLAWS.

THE GOVERNMENT'S CPRS IS A CRITICAL PUBLIC POLICY ISSUE, BECAUSE IT PUTS AT RISK THE LONG-TERM VIABILITY OF SIGNIFICANT SECTORS OF THE AUSTRALIAN ECONOMY.

A FIRST DRAFT OF THE CPRS REGULATIONS IS SCHEDULED FOR RELEASE IN JUNE 2009. AND IF THE GOVERNMENT REFUSES TO ADDRESS MAJOR CONCERNS FROM AUSTRALIAN BUSINESS, WE

COULD HAVE THE CURRENTLY PROPOSED, SERIOUSLY FLAWED SCHEME BEFORE A SENATE VOTE AS EARLY AS AUGUST OR SEPTEMBER THIS YEAR, AIMING FOR IT TO COMMENCE ON 1 JULY 2010.

FOR THE REASONS I JUST MENTIONED, THE AUSTRALIAN ECONOMY WILL SURVIVE THE ECONOMIC DOWNTURN, BUT IT MAY NOT SURVIVE THE CPRS.

AND SO, THE MAJOR QUESTION I POSE TODAY IS: WHY, ON THE ONE HAND, A GOVERNMENT WOULD INJECT MASSIVE FISCAL STIMULUS, MORE THAN \$50 BILLION AND GROWING, INTO THE ECONOMY TO SOFTEN THE DOWNTURN AND HELP SAVE JOBS - AND THEN, ON THE OTHER HAND, POTENTIALLY DESTROY EMPLOYMENT FOR MANY THOUSANDS OF AUSTRALIAN WORKERS WITH A CARBON TAX THAT WILL HAVE A SERIOUS DESTABILISING EFFECT ON INDUSTRY AND REGIONAL AUSTRALIA?

SUPPORT FOR OBJECTIVES BUT CPRS FLAWED

TODAY I WANT TO GIVE A STEEL INDUSTRY PERSPECTIVE.

SO, AT THE OUTSET LET ME STATE THAT BLUESCOPE SUPPORTS THE GOVERNMENT'S STATED ENVIRONMENTAL AND ECONOMIC OBJECTIVES ON CLIMATE CHANGE.

AT THE SIMPLEST LEVEL, BLUESCOPE STEEL SUPPORTS A PLAN TO:

- REDUCE GREENHOUSE GASES WHILE
- MAINTAINING THE COMPETITIVENESS OF EMISSIONS INTENSIVE TRADE EXPOSED INDUSTRIES – ‘EITES’, AND
- LINKING THE SCHEME TO SIMILAR SCHEMES IN OTHER COUNTRIES

BUT, AS A COUNTRY PRODUCING ONLY 1.4 % OF THE WORLD'S CARBON DIOXIDE EMISSIONS, THERE IS NO AUSTRALIAN SOLUTION TO CLIMATE CHANGE. ON THIS ISSUE AUSTRALIA SHOULD BE A LEADER IN PROMOTING THE NEED FOR CONCERTED ACTION WHILE DESIGNING A SCHEME THAT WILL WORK, AND THEN BE A FAST FOLLOWER IN IMPLEMENTATION.

THE GOVERNMENT HAS STATED IT DOES NOT WANT TO DAMAGE THE COMPETITIVENESS OF EMISSION INTENSIVE, TRADE EXPOSED COMPANIES. BUT ITS ACTUAL APPROACH IS QUITE THE OPPOSITE.

IN FACT ITS CURRENT PROPOSAL ACHIEVES NONE OF THE OBJECTIVES I'VE JUST OUTLINED. THE GOVERNMENT HAS NOT MODELLED THE IMPACT OF GOING IT ALONE IN 2010 AHEAD OF THE REST OF THE WORLD. NOR HAS IT ACCURATELY MODELLED THE IMPACT ON AUSTRALIA'S ECONOMIC GROWTH AND EMPLOYMENT.

NOR HAS IT ATTEMPTED TO MODEL THE IMPACT ON THE AUSTRALIAN ECONOMY OF IMPOSING A \$2.5 BILLION TAX ON THE NATION'S

LARGEST EMPLOYERS AND EXPORTERS, WHILE IN THE MIDST OF THE FASTEST DOWNTURN OF INDUSTRIAL GROWTH IN THE WORLD'S HISTORY.

THIS, DESPITE MINISTER WONG STATING IN FEBRUARY LAST YEAR THAT THE GOVERNMENT WOULD ADDRESS THE COMPETITIVE CHALLENGES FACING EITES - AND I QUOTE:

“THE INTRODUCTION OF A CARBON PRICE AHEAD OF EFFECTIVE INTERNATIONAL ACTION CAN LEAD TO PERVERSE INCENTIVES FOR SUCH INDUSTRIES TO RELOCATE OR SOURCE PRODUCTION OFFSHORE.”

AND STILL AGAIN FROM SENATOR WONG:

“THERE IS NO POINT IN IMPOSING A CARBON PRICE DOMESTICALLY WHICH RESULTS IN EMISSIONS AND PRODUCTION TRANSFERRING INTERNATIONALLY FOR NO ENVIRONMENTAL GAIN.” (SPEECH BY SENATOR HON PENNY WONG TO AIGROUP, 6 FEBRUARY 2008)

WE FULLY AGREE BUT THE REALITY OF THE GOVERNMENT PROPOSAL IS VASTLY DIFFERENT. THE CPRS, IN ITS CURRENT FORM, WILL NOT ACHIEVE EITHER OF THE GOVERNMENT'S TWO KEY OBJECTIVES AND IN FACT WILL SERIOUSLY AFFECT AUSTRALIAN JOBS AND COMPETITIVENESS, WHILE PROBABLY INCREASE GLOBAL EMISSIONS.

A LOOK AT THE MARKET

LET'S LOOK SPECIFICALLY AT THE STEEL INDUSTRY, OF WHICH I HAVE DIRECT KNOWLEDGE. WHILE AUSTRALIA IS A COMPETITIVE AND EFFICIENT PLACE TO MAKE STEEL, AND AUSTRALIAN STEELMAKERS ARE VERY COMPETITIVE ON THE WORLD COST CURVE, IT MUST BE STRESSED THAT WE ARE A SMALL PRODUCER BY GLOBAL STANDARDS – ABOUT 0.6% OF GLOBAL STEEL PRODUCTION.

COUNTRIES SUCH AS THE 'BRICS' (BRAZIL, RUSSIA, INDIA AND CHINA) PRODUCE HALF THE WORLD'S STEEL, AND IMPORTANTLY DO NOT IMPOSE COMPARABLE CARBON COSTS ON THEIR STEEL INDUSTRIES AND HAVE NO PLANS TO DO SO IN THE FORESEEABLE FUTURE.

IN EUROPE, INDUSTRIES SUCH AS STEEL WILL RECEIVE FREE PERMITS FOR 100 % OF THEIR DIRECT EMISSIONS UNTIL AT LEAST 2012. THE EUROPEANS WILL HAVE HAD THE SOFTEST OF SOFT STARTS – WITH AN 8 YEAR "REHEARSAL" OF THEIR SYSTEM.

THE AUSTRALIAN GOVERNMENT'S PLAN IS FOR OUR CPRS TO HIT US IN JUST 14 MONTHS TIME, A DEADWEIGHT BURDEN AHEAD OF ANY OTHER COUNTRY AND IN THE MIDST OF A GLOBAL RECESSION.

WE ARE PRICE-TAKERS IN GLOBAL AND REGIONAL STEEL MARKETS. IN THIS CONTEXT, AUSTRALIAN GOVERNMENT POLICY IS TO PROVIDE ASSISTANCE TO EMISSIONS INTENSIVE TRADE EXPOSED INDUSTRIES IN ORDER TO LESSEN THE IMPACT OF THE CPRS ON THEIR TRADE COMPETITIVENESS.

BUT UNFORTUNATELY, THE DRAFT CPRS DOES NOT DELIVER ON THAT COMMITMENT. ALTHOUGH THE HEADLINE RATE OF ASSISTANCE FOR INTEGRATED IRON AND STEELMAKING IN THE PROPOSED CPRS IS 90 % FREE PERMITS INITIALLY, THE EFFECTIVE RATE OF ASSISTANCE IS LIKELY TO BE CONSIDERABLY LESS – AS LOW AS 58 % IN SOME SCENARIOS.

THE AUSTRALIAN INDUSTRY GREENHOUSE NETWORK ESTIMATES THAT INITIALLY THERE WILL BE 460 MILLION PERMITS MADE AVAILABLE TO MEET AUSTRALIA'S EMISSIONS CAP. USING THE SCHEME'S ESTIMATED STARTING PRICE OF \$25 PER TONNE OF CARBON DIOXIDE, THAT WOULD BRING ABOUT \$12 BILLION INTO THE GOVERNMENT COFFERS IN YEAR ONE.

THE AIGN CALCULATES THAT 45 % OF AUSTRALIA'S EMISSIONS COME FROM TRADE-EXPOSED INDUSTRIES, YET ONLY 25 % WILL GO BACK TO THESE SAME INDUSTRIES AS FREE ALLOCATIONS OF PERMITS. THE GAP (20 %) EQUATES TO \$2.5 BILLION PER ANNUM.

SO LET'S JUST PAUSE FOR A MOMENT – AT A TIME WHEN THE GOVERNMENT'S TOP PRIORITY IS TO INJECT FISCAL STIMULUS INTO THE ECONOMY (OVER \$50 BILLION AT PRESENT) TO BOOST DEMAND AND RETAIN JOBS, IT IS ALSO PUSHING AHEAD WITH A CARBON SCHEME THAT WILL TAX AUSTRALIA'S LARGEST EXPORTERS AND EMPLOYERS, MAKING THEM UNCOMPETITIVE AND PUTTING THEIR EMPLOYEES' JOBS AT NEEDLESS RISK. IN OTHER WORDS A \$2.5 BILLION DE-STIMULUS PACKAGE THAT WILL HAVE SERIOUS IMPACT ON AUSTRALIA'S COMPETITIVENESS AND ON REGIONAL ECONOMIES.

SOME OF THE LARGEST BUSINESSES IN AUSTRALIA ARE CAUGHT IN THIS NET. THEY INCLUDE LARGE-SCALE EMPLOYERS IN CORE INDUSTRIES LIKE MINING, CEMENT, COAL, ALUMINIUM, STEEL AND LNG – THE VERY BACKBONE OF OUR REGIONAL ECONOMIES.

SOME COMMENTATORS HAVE STARTED TO LIKEN THE CPRS IMPOST TO A 'REVERSE TARIFF'. THE CPRS WILL ACT LIKE A PUNITIVE TAX ON DOMESTIC INDUSTRY, GIVING AN UNFAIR ADVANTAGE TO IMPORTS AND IMPOSING A DISADVANTAGE ON EXPORTS.

UNTIL OTHER COUNTRIES INTRODUCE COMPARABLE CARBON COSTS ON THEIR STEEL INDUSTRIES, IMPOSING A CARBON COST ON THE STEEL INDUSTRY IN AUSTRALIA WILL SIMPLY MAKE AUSTRALIAN STEELMAKERS LESS COMPETITIVE, OPENING THE DOOR TO MORE IMPORTS.

THIS IS PARTICULARLY CRITICAL IN THE CURRENT DOWNTURN, WHICH HAS LED TO A SERIOUS DROP IN WORLD STEEL DEMAND WITH MASSIVE EXCESS CAPACITY.

NOT ONLY THAT, INCREASING STEEL PRODUCTION IN COUNTRIES WITHOUT THE SAME HIGH ENVIRONMENTAL STANDARDS AND ENERGY EFFICIENCIES AS AUSTRALIA WILL HAVE THE EFFECT OF INCREASING GLOBAL GREENHOUSE GAS EMISSIONS.

FURTHER, THE CPRS WILL DRAIN CASH FROM BALANCE SHEETS – CASH THAT COULD OTHERWISE BE USED TO INVEST IN ABATEMENT PROJECTS.

AT BLUESCOPE STEEL – A PROPOSED ABATEMENT PROJECT REQUIRING MORE THAN A \$1 BILLION INVESTMENT WOULD BE ONE OF THE LARGEST GREENHOUSE GAS REDUCTION INITIATIVES IN AUSTRALIA, TAKING THE EQUIVALENT OF 800,000 CARS OFF THE ROAD. BUT THE BOARD CANNOT COMMIT TO SUCH A PROJECT UNDER THE DRAFT CARBON POLLUTION REDUCTION SCHEME.

A WELL-DESIGNED CPRS WOULD PROVIDE CERTAINTY FOR AUSTRALIAN BUSINESS AND AN INCENTIVE FOR ABATEMENT EXPENDITURE FOR ALL EITES, AND NOT ACT AS A DEADWEIGHT ON INDUSTRY.

WHAT'S AT RISK

LET'S JUST CONSIDER WHAT'S AT RISK.

THE AUSTRALIAN BUREAU OF STATISTICS TELLS US THAT IN 2005-06, THE ENTIRE AUSTRALIAN STEEL INDUSTRY CHAIN, FROM THE HOT END IN IRON AND STEELMAKING THROUGH TO SUCH AREAS AS FABRICATION, EMPLOYED OVER 91 THOUSAND AUSTRALIAN EMPLOYEES AND PRODUCED ALMOST \$29 BILLION IN TURNOVER.

WHILE AUSTRALIA'S TWO STEEL COMPANIES – BLUESCOPE STEEL AND ONESTEEL – TOGETHER DIRECTLY EMPLOY 20,000 AUSTRALIANS,

MANY IN REGIONAL AREAS, THESE STATISTICS ILLUSTRATE WHAT'S AT STAKE – AND THAT'S JUST FOR THE STEEL INDUSTRY.

ANOTHER COMPANY VOICING ITS CONCERN, MAJOR LNG EXPORTER WOODSIDE, HAS ALSO SAID THE CPRS WILL COST JOBS AND INCREASE GLOBAL EMISSIONS.

THEY EMPHASISE THAT THE SCHEME FAILS TO RECOGNISE THE ROLE OF AUSTRALIA'S NATURAL GAS EXPORTS IN REDUCING GLOBAL EMISSIONS. THE LNG INDUSTRY ASSOCIATION STATES IT'S "AN INDUSTRY THAT IS POISED FOR GROWTH PRECISELY BECAUSE OF THE WORLD'S DEMAND FOR CLEANER-BURNING FUEL, AND WHAT DO WE DO? WE CONSTRAIN IT."

STOP AND TAKE STOCK

IT IS ABSOLUTELY CRITICAL THAT THE GOVERNMENT STEP BACK AND TAKE ACCOUNT OF THE CONCERNS OF BUSINESSES BEING PUT IN JEOPARDY BY THE CPRS. EITE INDUSTRIES ARE MAJOR CONTRIBUTORS TO THE GROWTH AND PROSPERITY OF THIS NATION AND TO REGIONAL EMPLOYMENT.

FOR THE GOVERNMENT TO ACHIEVE ITS OWN STATED OBJECTIVES, THE CPRS NEEDS SIGNIFICANT AMENDMENT.

MANY COMPANIES, INDUSTRY GROUPS – SUCH AS THE AUSTRALIAN INDUSTRY GROUP - AND COMMENTATORS AROUND AUSTRALIA SHARE THESE VIEWS.

THE AUSTRALIAN INDUSTRY GROUP AND THE FEDERAL OPPOSITION HAVE BOTH CALLED FOR THE INTRODUCTION OF THE SCHEME TO BE DELAYED UNTIL 2012, THE TIME WHEN THE EUROPEAN 'TRIAL PERIOD' ENDS. THEY ALSO CALL FOR SUBSTANTIAL MODIFICATIONS TO BE MADE, ESPECIALLY TO THE ASSISTANCE ARRANGEMENTS FOR EMISSIONS INTENSIVE TRADE EXPOSED INDUSTRIES.

WE HAVE TIME TO GET IT RIGHT

THE GOVERNMENT ITSELF HAS SAID, EVEN BEFORE THE ECONOMIC DOWNTURN, THAT AUSTRALIA IS ON TRACK TO MEET ITS 2012 KYOTO TARGETS. THE ECONOMIC DOWNTURN HAS SEEN A 50 % REDUCTION IN WORLD STEEL PRODUCTION – A SIGNIFICANT DROP IN BUSINESS AND ONE THAT SURELY DOESN'T NEED AN ADDED TAX BURDEN.

IRONICALLY, THE ECONOMIC DOWNTURN HAS SIGNIFICANTLY REDUCED GREENHOUSE EMISSIONS FROM MANY INDUSTRIES – INCLUDING IRON AND STEEL - AND GIVEN US THE TIME TO REVISIT CLIMATE CHANGE POLICY AND GET THE FOUNDATIONS RIGHT.

AND WE NEED TO ENSURE WE WATCH WHAT'S HAPPENING IN THE US, STILL THE WORLD'S LARGEST ECONOMY. DESPITE THE RECENT INTRODUCTION OF A DRAFT BILL (AMERICAN CLEAN ENERGY AND SECURITY ACT 2009), PRESIDENT OBAMA IS FACING MOUNTING PRESSURE FROM HIS OWN SENATE TO BE CAUTIOUS ABOUT IMPOSING A CARBON TAX ON ITS FRAGILE ECONOMY.

IN A RECENT VOTE, 26 DEMOCRATS JOINED ALL 41 REPUBLICANS TO INSIST THAT ANY NEW CAP AND TAX ON CARBON ENERGY WOULD REQUIRE AT LEAST 60 VOTES INSTEAD OF THE PREVIOUS BARE MAJORITY OF 50. THIS SINGLE ACT IS CONSIDERED A MAJOR POSITIVE FOR THE US ECONOMY.

THE CHALLENGE

WE CALL ON THE GOVERNMENT TO MOVE SWIFTLY TO UPDATE ITS ECONOMIC MODELLING TO REFLECT THE REAL WORLD, SPECIFICALLY TO:

1. MODEL THE IMPACT ON THE AUSTRALIAN ECONOMY AND KEY REGIONAL ECONOMIES OF ACTING IN ISOLATION AHEAD OF THE REST OF THE WORLD. AMAZINGLY THIS IS A BASIC ASSUMPTION OF GARNAUT, BUT AT THIS LATE STAGE THIS FUNDAMENTAL ASPECT HAS NOT BEEN MODELLED
2. MODEL THE IMPACT ON EMPLOYMENT OF INTRODUCING A CARBON TAX SOLELY IN AUSTRALIA, DURING A GLOBAL RECESSION
3. MODEL THE IMPACT ON THE AUSTRALIAN STEEL INDUSTRY, NOT AT THE HEADLINE 90 % ASSISTANCE LEVEL, BUT AT THE LOWER LEVEL THE GOVERNMENT PLANS TO ACTUALLY INCLUDE IN ITS DETAILED REGULATIONS.

OF COURSE, WE THEN NEED TO MAKE THIS DATA AVAILABLE TO THE PUBLIC, SO WE CAN SENSIBLY DEBATE THE TIMING AND DETAIL OF A CPRS.

LADIES AND GENTLEMAN, I'VE SPOKEN ABOUT THE MAJOR ADVERSE IMPACT THE GOVERNMENT'S CARBON POLLUTION REDUCTION SCHEME, IN ITS CURRENT FORM, WILL HAVE ON AUSTRALIAN INDUSTRY.

AS I CLOSE, I WANT YOU AS COMPANY DIRECTORS TO CONSIDER A FEW QUESTIONS:

- DO YOU KNOW WHAT THE CPRS HAS IN STORE FOR YOUR COMPANY?
- DO YOU KNOW THE MAGNITUDE OF YOUR CPRS BURDEN?
- DO YOU HAVE A SCOPE 1 OPERATION THAT DIRECTLY EMITS CARBON DIOXIDE TO THE ATMOSPHERE – IF YOU DO I'M SURE YOU WILL HAVE BEEN WORKING DILIGENTLY TO REDUCE EMISSIONS.

BUT, ALL OF YOU WILL BE SCOPE 2 EMITTERS ...

- DO YOU KNOW HOW MUCH OF YOUR ENERGY CONSUMPTION WILL BE TAXED?
- HAVE YOU THOUGHT ABOUT ABATEMENT STRATEGIES AND WHAT THEY WILL COST?
- DO YOU KNOW HOW MUCH ALL THIS WILL REDUCE YOUR PROFIT?

AND ARE YOU FULLY ACROSS THE FACT THAT THE COSTS OF EMISSIONS IN GOODS AND SERVICES YOU CONSUME CAN BE PASSED THROUGH THE SUPPLY CHAIN - THAT IS SCOPE 3:

- DO YOU KNOW HOW MANY OF THEIR CPRS COSTS YOUR SUPPLIERS WILL BE PASSING ON TO YOU?
- DO YOU KNOW HOW MANY OF YOUR CPRS COSTS YOU CAN PASS ON TO OTHERS – AND IF THEY’LL WEAR THESE COSTS?

THESE CPRS ‘SCOPE 3’ EMISSIONS COULD BE YOUR LARGEST COSTS.

THE INTRODUCTION OF A DOMESTIC EMISSIONS TRADING SCHEME IS UNDOUBTEDLY ONE OF THE MOST FAR-REACHING CHANGES AUSTRALIA HAS EVER CONTEMPLATED – POTENTIALLY WELL BEYOND THE INTRODUCTION OF THE GST A DECADE OR SO AGO – WITH MAJOR IMPACTS ON MANY PARTS OF OUR ECONOMY.

IF EVER THERE WAS A TIME TO STOP, TAKE STOCK IN A CALM, ANALYTICAL AND BI-PARTISAN MANNER – IT IS NOW.

UNFORTUNATELY, MUCH OF THE DEBATE AND LEGISLATIVE PROCESS TO DATE HAS BEEN CHARACTERISED BY POLITICKING, STONEWALLING AND INFLEXIBILITY.

AUSTRALIANS AND THE AUSTRALIAN ECONOMY DESERVE BETTER.

THANK YOU.