

Inside Canberra

Rob Chalmers - bringing you the latest business intelligence from inside Federal Government

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From the Gallery

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- The Treasurer, Wayne Swan, will bring down his first Budget for the Gillard Government (his fourth since Labor won the 2007 election) on 10 May at 7.30pm in the House of Representatives.

- A larger than normal contingent of lobbyists and business people will be in Parliament House seeking consultations with Ministers, the Opposition, staffers and senior public servants. Any of our subscribers from outside the ACT planning to be in Canberra on Budget night should be making early bookings. Hotels will be heavily booked.

- This Budget will give a clearer indication of how the Government proposes to handle the detail of assisting the economy out of the New Year floods disaster, and in the longer term, what funding will be going to commitments on climate change amelioration. It might well be the greenest budget yet produced by any Treasurer. It will be constructed against the background of the Greens having the balance of power in the Senate less than a month later.

- Whatever the Government does on climate change will be after consultation with the Greens and the independents in the House supporting the Government, Messrs Oakeshott and Windsor. Any subscriber interested in the Budget, but not going to Canberra, can of course watch and hear it delivered on ABC TV and watch and listen to budget reaction programs later.

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Floods a pointer to climate change

Climate change will be the dominant issue in politics from now until the next election. This was the outlook when we entered 2011 and it is now even more certain following the floods, the worst natural disaster the nation has suffered. Scientists say that the flooding was not caused by global warming, but by La Nina changes in ocean temperatures, which produces floods or droughts. But the climate scientists insist that the floods are exactly the type which will be produced by global warming.

Gillard to set a price on carbon this year

Julia Gillard will put a price on carbon this year which will operate from 1 July 2012. But what will the price be and what will be its financial and economic ramifications? The science tells us that to avoid global warming by 2050, emissions need to be cut by 40% by 2020, a mere nine years away. The Greens believe it will be difficult to get agreement in the Parliament on a carbon price and have put forward the sensible idea of an interim tax. Julia Gillard will be influenced by the attitude of the Greens, whose solitary member of the House of Representatives – Adam Bandt – is important to her. The Greens are looking at a carbon price (beginning in 2012) of \$20 a tonne rising by the CPI, plus 4% each year until the level required by science is met.

Milne against compo for coal generators

It is unlikely that the Gillard government will attempt to go back to an emission trading scheme, which was defeated in the Senate last year. Business wants a low carbon price for certainty, but there are mixed views in companies as to whether it is better to have a low tax, or to try again for an emission trading scheme with compensation (where it would hurt exporters). Last month, Greens Deputy, Christine Milne, said emission trading is “gone”. The Gillard Government and the Greens have not settled the argument about compensation for coal generators (with the government in favour), but Milne says the generator companies and Australian governments should have known that a carbon price/tax was inevitable, and thus should not be assisted to avoid the consequences of bad business decisions.

Gillard has to win voters on carbon

The politicians know Australians want something done about global warming, and polling suggests that a sizeable minority are prepared to make financial sacrifices. Gillard’s task is to persuade a big majority that action now is cheaper than delay; that Australia is not out in front of the rest of the world in dealing with global warming, but is trailing; and that decisive action can be taken at a modest cost to families. She has already begun the campaign. Back on 12 December in a *Sunday Tele* interview, she warned that Australians face a decade of rising electricity prices and the risk of blackouts unless a carbon price is introduced. Although acknowledging households were struggling to pay high power bills, Gillard correctly warned things would get even worse for families if investment uncertainty in the electricity industry continued. It’s a pity she suggested that electricity prices were already a big problem for families, because most families can easily deal with power bills.

Households can afford energy increases

We reported (24 Sept 10) on the Climate Institute commissioned joint CSIRO/ANU paper on the effect of the Rudd Government's emission trading scheme on household energy budgets. Looking first at a moderate carbon price outlook (one which more gradually reduces emissions), total energy costs for low income families amounted to around 10% of household expenditure in 2005. That's for all energy – petrol, diesel, electricity, gas and heating oil. By 2020-40, it would have declined to below 8% of household income. On a high carbon price emission trading scheme (ETS), low income households' total energy costs would be between 16-18% of household expenditure from 2015 to 2030, before falling below 12% in 2040. Average income and upper income families' energy budgets are even better off under both scenarios. Had the government's ETS been passed by Parliament, the Government estimated that for a dual income family earning \$120,000, the cost of the Carbon Pollution Reduction Scheme (CPRS) would be about \$21 a week, and for this they would be over-compensated with \$24 a week. At the time it was thought the price on carbon under the ETS would be around \$25 a tonne.

What will Abbott do?

Having described global warming as "crap", what approach will climate sceptic Tony Abbott take on a carbon price? Whatever Gillard announces, he will (on past form) declare it is a "great big tax on everything". What is unclear is whether he will continue to rely on his basic climate change policy in his climate action plan – paying polluters to pollute less – a scheme which Malcolm Turnbull, before he rejoined the shadow ministry, described as "bull****". Abbott's scheme has had no support from business, or from the climate scientists. It will be increasingly difficult for Greg Hunt, Shadow Minister for Climate Action (who earned a PhD on his climate change thesis), to continue to support Abbott if the Coalition leader refuses to accept the principle of a price on carbon.

Gillard offers more tax for floods

Julia Gillard says a Budget surplus in 2012/13 has been stymied by the floods and she now proposes a special one-off tax levy similar to the levies imposed by John Howard, such as the popular guns buy back scheme (see below Abbott attacks flood levy tax). AMP chief economist, Shane Oliver, says the floods may have cost the economy \$30 billion and adds it is hard to calculate a precise cost. He expects at least a \$13 billion dollar cut to the March quarter GDP. Treasury has warned Wayne Swan the big blow to the government will come not from emergency aid to the states, but from the loss of revenue. Coal mining has been set back, and there has been serious damage to wide swaths of previously productive agricultural land producing basic food-stuffs – beef, lamb, vegetables and fruit. The Reserve Bank faces an inflation problem, posing the threat of interest rate rises later in the year.

Burden of reconstruction

Revenue from the sale of these items will be sharply down. Then there is the reconstruction of roads and other infrastructure such as schools and hospitals. The government should borrow for any projects considered to be long term economic infrastructure – but it won't. The Government is wary about an attack from the Opposition on increasing debt. Yet there is tonnes of room for borrowing. We reported (23 July) Reserve Bank Governor Glenn Stevens rather ruined the insistence of Tony Abbott and Joe Hockey that debt was at horror levels and urgently needed to be brought to zero. Stevens said, "The level of public debt is very low. There is virtually no public debt in this country at all in contrast to much of the developed world. I think the most recent figures out of Canberra were that net debt peaked at five or six per cent of GDP, so far from being the highest in history they are close to the bottom."

Coal companies move to force majeure

There will be a serious setback to taxable revenue from the coal industry following the floods. A coal industry insider told *Inside Canberra* this week that Queensland produces about 35% of Australia's exportable and, most importantly, its high grade coal. The Queensland coal basins are predominantly the very aged, high grade coal types used in steel making; Australia accounts for two-thirds of the world's coking coal supply, and 90% of that coal comes from Queensland. The

floods will impact on each mine in various ways. Most mining companies invested heavily in flood mitigation measures after the 2008 floods. Coal miners will be looking to buy high volume pumps, but getting the skilled workforce to operate them won't be easy. Most of the Queensland coal mines are open cut, although there are a considerable amount of 'longwall' type underground coal mines operating. One problem is that although many mines won't be hard hit by the floods, the railways which carry the coal have been. It is generally believed it will be six months before the coal industry is back to normal production, and a majority of mining companies will be declaring *force majeure*.

Abbott attacks flood levy tax

Tony Abbott has been given some ammunition to fire back at the Government with Gillard's proposed flood levy. Abbott has correctly described it as an unnecessary new tax and we agree, though for different reasons. Abbott supports the surplus target, but we believe there is no need to reach a budget surplus in 2012/13. If the Opposition insists that despite the floods, the Budget surplus should be reached, it must state what expenditure should be cut. Taxpayers are not at all concerned about the budget going into surplus. As we explained last week, the Government is anxious to reach the surplus target to please the market, but the market needs no pleasing. At one point this week the Aussie dollar reached parity with the US dollar, which clearly illustrates the market has every confidence in Australia. Independent Senator Nick Xenophon says there is no point in slashing spending now. "I'm not sure why the Government would want to put itself in an economic straight jacket," he said on Wednesday. More importantly, rural independent Tony Windsor was most forthright and urged the Government not to be obsessive about a surplus, adding, "There's nothing wrong with being in deficit." Windsor's vote is vital to Gillard in the House.

Sending back Afghan asylum seekers

Immigration Minister, Chris Bowen, has announced an "agreement" with the Afghan Government that those who have failed to be recognised as refugees will be returned to their home country. The Gillard Government – like the Rudd Government – is copying John Howard's policy on boat people: be tough on them and win votes, particularly in the western suburbs of Sydney. We're talking trifling numbers here. Some 4,300 have arrived since 2008 and about 2,600 are now in detention centres. At this point, a mere 50 have failed to qualify for refugee status and will be forced home to Afghanistan for the embrace of the corrupt Hamid Karzai Government, whose war lord backers are hand-in-glove with the Taliban. Bowen is to hand over \$5.8 million of taxpayers' money "to improve the integrity" of the Afghan passport system. That will go straight into the pockets of the senior people in the Karzai regime. Meanwhile, the Taliban are still there and will be when the west finally departs.

Outsiders in Cabinet

We don't want to be seen as running a vendetta against Bruce Hawker (*see last week's IC*), but we must put him right on one of his thought bubbles – outsiders other than politicians becoming members of the Cabinet. The three rural independents – Oakeshott, Windsor and Katter – have asked Hawker to provide ideas on ways the parliamentary process can be changed for the better. He thinks the Prime Minister should be able to choose four or five people who can bring a different perspective to Cabinet. Hawker said, "I think there's a lot to be said for increasing the gene pool of any cabinet. We shouldn't assume the best brains in the country are always going to come from those who've been elected – the 150 people who make up the parliament."

Constitution says 'No'

It can't be done. Section 64 (S.64) of the Constitution dealing with the membership of the Executive Council (the Cabinet), precludes politicians other than members of the Federal Parliament as eligible for membership of Cabinet. S.64 states, in part – "*After the first general election no Minister of State shall hold office for a longer period than three months unless he (sic) is, or becomes, a senator or member of the House of Representatives.*" The reality is that anyone can be invited into the Cabinet room for discussions, but they can't be a member of the Cabinet. Part of the

Chinese air power

bedrock on which the Westminster system is built is the principle that members of the Cabinet, sworn in as members of the Executive Council by the Governor-General, are elected members of the Parliament and they are responsible to the Parliament. This could be changed by a referendum, but if the necessary legislation improbably passed the Senate, it would not be approved by voters.

Peter Goon is a co-founder of Air Power Australia, a think-tank. Fairfax press reports that Goon is concerned following speculation that China has built a stealth fighter superior to anything the west has. Goon believes the aircraft provisionally, designated the J-20 by western observers, is designed to protect trade within an area bordered in the east Pacific by islands such as the Marianas, Guam and the Carolines, as well as the eastern end of the Indonesian archipelago. Goon says, "If Defence does not rethink in a timely, objective and coherent way their current plans, we should take them out, put them in a stock and pillory them." It is unclear what Defence should do. It is not within the capability of Australia or any other nation to prevent the Chinese building the J-20. Perhaps he wants us to buy from the US its best alternative to the J-20, which would put the budget well in the Red. It is hardly a surprise that China, rapidly emerging as the world's super power, believes it should have military clout commensurate with this ambition. Australia should be pleased indeed that China is taking action to guarantee the freedom of commercial use of shipping routes to transport our exports to China. Having said this, the world should continue to put pressure on China over its disgraceful human rights record. At a White House press conference on Wednesday, Chinese President Hu Jintao admitted for the first time that "a lot still needs to be done in terms of human rights in China."

The US Alliance

There is every reason for Australians to feel nervous about developments in the United States, our formal ally since R.G. Menzies signed the ANZUS agreement. The psychotic nature of American society was again tragically exposed with the shooting of Democrat Gabrielle Giffords in her home state of Arizona. There is no law in Arizona preventing lunatics from carrying concealed hand guns. In Washington, the American Rifle Association continues to successfully block any attempt at serious gun control. Since President Barak Obama took office, the extreme right fringe of US politics has been super active. The ABC reported on the views of Molly McKasson Morgan, 63, who participated in Tucson politics and knew Ms Giffords – "I feel huge sorrow, that's just been building in southern Arizona for some time, this hate, hate, fear ... somewhat around healthcare reform. It definitely heated up when President Obama was elected."

Evangelist lobby powerful

Another powerful lobby in Washington represents the Holy Roller Christian evangelists and they have a lot of clout with the far right of the Republican Party. The one bright note is that in the Republicans' determination to do what is the opposite of wise – by cutting government spending to the bone even though one in seven Americans are officially in poverty – it would limit the ability of the Pentagon to maintain forces abroad in various wars. Since World War II, Australia joined the Americans in the failed Vietnam war and the Iraqi war, the latter now beginning to look the disaster the CIA predicted. When President Sukarno of Indonesia embarked on confrontation with Malaysia in the sixties, Australia looked for support from the United States, which was refused. Similarly, when Indonesia sought control of the former Dutch colony of West Papua, Menzies fought tooth and nail to avoid it until President Eisenhower told him to back off. John Howard rightly put the Australian army into East Timor to prevent a takeover by Indonesian militia. He sought assistance from Bill Clinton but was turned down. The US alliance has produced nothing of substance, but a lot of sorry, for Australia.

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