



Construction, Forestry, Mining and Energy Union

Australia's Climate Policy Options

**Submission to the
Climate Change Authority**

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This response has been prepared and submitted
on the basis that it is a public document.

Submitted to the:

Climate Change Authority
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Overview

The CFMEU is one of Australia's largest trade unions, and represents workers in heavy industry, including in the emissions-intensive sectors of coal mining and power generation.

We accept the need for major restructuring across Australia, including in the power generation industry, as part of necessary efforts to mitigate climate change.

However, that acceptance is contingent on climate policy fully addressing the social costs associated with major industry restructuring. While Australian society and the economy as a whole may experience little loss from strong climate policy, it is very clear that certain industries and regions, and the communities associated with them, will be hit hard.

A key outcome of the December 2015 COP21 Paris Agreement on climate is "Just Transition" for workers and communities affected both by climate change and by policies dealing with climate change.

This submission largely confines itself to that issue, and urges that the Climate Change Authority integrate it into its policy development.

While there is reference to equity as one of the guiding principles for the CCA's work, this is not focussed on the impacts on particular regions that are already known to be "in the firing line" in climate policy.

Australia has a poor track record in Labour Adjustment Programs. Generally they are too little, too late. An after-thought rather than an up-front policy priority.

The CFMEU urges the CCA to not repeat that mistake.

Introduction

The Construction, Forestry, Mining and Energy Union welcomes the opportunity to make a brief submission responding to the Second Draft Report of the Climate Change Authority .

The CFMEU consists of three Divisions, namely the Mining and Energy Division, the Forestry and Furnishing Products Division and the Construction and General Division. We are the major union in these industries and represent approximately 110,000 members across Australia.

The CFMEU Mining and Energy Division has the overwhelming majority of its members employed in coal mining and power generation and is therefore always concerned about energy policy and regulatory frameworks.

The agreed need to mitigate climate change has profound implications for the mining and energy membership of the CFMEU and is the reason why the CFMEU has sought to play a significant role in Australian climate policy dating back to before the Rio Earth Summit in 1992 that saw the adoption of the UN Framework Convention on Climate Change (UNFCCC).

The key starting point – the science

The CFMEU accepts the global consensus on climate science as presented by the Intergovernmental Panel on Climate Change. The CFMEU consequently accepts the need to reduce global net greenhouse gas emissions to a level that is commensurate with limiting global warming to no more than 2 degrees Celsius and preferably less. This requires net anthropogenic greenhouse gas emissions to reach zero or below.

Beyond that starting point there is considerable debate about the path that each nation should follow as part of contributing to the global mitigation effort. Debates about, *inter alia*, the required pace of emissions reductions, equitable burden sharing among nations, the

appropriate technologies, and the mix of market mechanisms and regulatory instruments that should be used.

The other starting point – guiding principles

Given that it is broadly accepted that addressing climate change will require large effort, with a very large role for public policy instruments causing major industry restructuring, and with consequences for economic growth, incomes and living standards, the principles that underpin public policy are of critical importance.

Alongside accepting the science-based need to act, it is the principles informing public policy intervention that will determine whether there is broad public support.

The CFMEU supports the principles adopted by The Australian Climate Roundtable in 2015.¹ In the context of this submission we draw particular attention to the statement on equity:

“Equity

Reducing Australia’s emissions and adapting to unavoidable climate impacts, some of which are already here, involves both costs and opportunities. New opportunities for decent work should be open to all in the community. The costs of climate policy should be spread fairly within the Australian community and policy should:

- protect the most vulnerable individuals;
- avoid disproportionate impacts on vulnerable people, low income households and the organisations that support them; and
- *assist the successful transition of communities that are especially vulnerable to economic shocks or physical risks as a result of climate change or climate policy.*

Equity should be explicitly addressed in the policy design process, including immediate impacts and those on future generations of Australians.”
(emphasis added)

The attention of the CCA is also drawn to the outcomes of the 21st Conference of the Parties to the UNFCCC – COP21 that touch on the same issue – transition:

¹ See <http://www.australianclimateroundtable.org.au>

“The Parties to this agreement:

.....

Taking into account the imperatives of a just transition of the workforce and the creation of decent work and quality jobs in accordance with nationally defined development priorities,”

(Preamble to The Paris Agreement, COP21 outcome, December 2015)

The CFMEU notes that the CCA has proposed equity as one of four principles for assessing policy. However, while the CCA makes reference to low-income households as one group that should not bear a disproportionate burden of climate policy, there is no reference to the regional and sectoral impact of climate policy measures. The CCA does refer extensively to international competitiveness issues with regard to emission-intensive industries, but that does not capture the potential social impacts of emissions reduction policies on domestic industries.

The adequacy of the CCA’s proposed targets

The CFMEU does not consider itself as having particular expertise in the determination of appropriate climate targets for Australia and will not spend time here advocating targets or timeframes. (Though we note that a similar lack of expertise among many other parties does not lessen their willingness to push targets!)

It is clear that tougher targets and more rapid time frames require more rapid economic and social restructuring – change that is implemented over 40 years is going to be less difficult than change imposed over just 10 years. The CFMEU, with its primary responsibility to look after the interests of its members and their families, is therefore always going to be cautious about the need for more rapid and stronger action, even if interpretations of the science warrant that pace.

In that context, the CFMEU notes that the CCA’s proposed targets and timeframes released in July 2015 *precede* rather than *follow* its discussion of policy options to achieve them. While acknowledging there is a tendency for public policy to develop in this way, and the CCA is complying with the Terms of Reference given to it by the Minister for the Environment, the CFMEU suggests it would be preferable for policy-makers to have a very good idea of *how* they will achieve a goal *before* they adopt that goal.

For the CFMEU it is “how we get there” that matters as much as the end goal. There are good and bad ways to achieve the end goal; how we get there determines the sort of country Australia will become as much as the end goal.

The other point that the CFMEU observes about the targets adopted by the CCA (from the comparison charts on page 8 of the July document) is that the CCA is seeking that Australia engage in a measure of “catch up” to the positions occupied by other developed nations. The CCA proposes among the highest level of cuts in total emissions and, when it comes to per capita emission reductions, it is proposing the highest level of cuts of any developed nation.

The absolute reductions in emissions result in higher per capita reduction because the Australian population is growing more rapidly than most developed nations (some of which are at or near the point of population decline).

Two points follow from this:

1. The CCA is proposing relatively rapid or aggressive emissions reduction targets for Australia especially when considered on a per capita basis, and
2. climate policy needs to complement other public policy; that Australia is choosing to have a high population growth policy (for humanitarian and economic growth reasons) will impact on the achievability of climate policy.

The policy options

The CCA canvasses a suite of policy options. Broadly speaking, even where market mechanisms are favoured, all the options involve regulatory actions as markets (eg. For carbon emission permits) are being created where they previously did not exist.

The CFMEU has for many years favoured an emissions trading scheme with the broadest application possible. The climate problem is a society and economy-wide problem and emissions reductions (and sink enhancement) are required everywhere. Singling out sectors for a greater contribution means they are likely to face a disproportionate

burden. And measures targeting the electricity generation sector alone are at best a precursor to policies across other sectors as electricity generation only accounts for one third of Australia's emissions.

As part of supporting an ETS (such as that implemented under the Clean Energy Future package of the former Labor Government) the CFMEU sought specific measures for those parts of the coal mining industry that would have been hardest hit – notably mines with high levels of fugitive methane emissions. The goal was to encourage the industry to shift to low-emission extraction over time without imposing harsh and early penalties on certain mines and their workforces.

The CFMEU has also supported carbon pricing via an ETS because we considered a price on carbon to be essential to providing a commercial rationale for the set of technologies that could transform coal use into a low emission technology – carbon capture and storage (CCS).

It is the lack of carbon pricing combined with the rapid fall in the price of renewable energy technologies that has contributed to the lack of meaningful development of CCS. While CCS technologies will remain critical for reducing emission from industrial processes (like the production of iron and steel, and petrochemicals) it appears they will play a small role in power generation.

The CFMEU is aware of many proposals that seek to facilitate a faster rate of emissions reduction in the electricity supply industry through accelerated closure of brown and black coal-fired power stations. These proposals include tightening emission limits, closure by age of power station, and payments for closure (including via a competitive bidding process).

While the CFMEU prefers a broader approach to emissions reduction, it is agreed that these measures can be complementary to that. *However, the key caveat for the CFMEU is that the measures be socially just and equitable. To date, the CFMEU has seen very little in the way of proposals that treat the impact on coal power station workers and their*

communities as more than an after-thought. The Jotzo paper represents progress in this area but nowhere near enough.²

The affordability of social costs

There has been very little work done on the social costs of emissions reduction pathways. Even in the relatively discrete area of the electricity supply industry. The aforementioned Jotzo paper gives the “illustrative” example of \$150 million for the compensation of workers and nearby community for the closure of one brown coal-fired power station.

The CFMEU views this illustrative example as wrong by an order of magnitude as it does not meet the minimum threshold of ensuring that those workers and the nearby community are not disproportionately affected by the closure. But at least it is an effort to integrate social costs into the policy option.

The technical modelling work done by organisations like ClimateWorks into how Australia can achieve deep carbonisation contain barely a reference to social costs.³

Most economic modelling tends to assume away social costs. Generally full employment is assumed and incomes adjust to the flow of activity from one sector to another, or incomes are deemed less flexible and more unemployment results. Labour is generally assumed to move as freely as capital between industries and across regions, even though it is well-known that that is not a practical reality.

The Labor Government White Paper on energy in 2012 stated that up to \$240 billion in domestic energy sector investment would be required by 2030. Much modelling work prefers to place that in the context of overall economic growth through that period and emphasise that

² F Jotzo and S Mazouz (2015), Brown coal exit: a market mechanism for regulated closure of highly emissions intensive power stations. CCEP Working Paper 10. Australian National University, Canberra

³ In the major report “Pathways to Deep Decarbonisation by 2050” (September 2014) there is a brief reference at 38: “some support may be required for the transition of current high-emissions industries and regions, for example for retraining of workers, phase-out provisions, and transitional support for newly established industries.” The work on technical options may be admirable, but the work on social costs is woeful.

reducing emissions from electricity and other sectors will detract little from overall economic growth.

The point that must be made here is that there are many regions and many hundreds of thousands of people (directly-employed workers, their families and those in related industries and regions) that are likely to be adversely affected by major electricity industry restructuring. There may well be benefits for other industries, workforces and regions but they are very unlikely to be the same.

Therefore there must be explicit commitments to programs that will ensure that those likely to be adversely affected are looked after. And that means a great deal more than some retrenchment pay, help writing a CV and possibly a minor bit of retraining and relocation assistance. The CFMEU has experience with Labour Adjustment Programs in the forestry industry over many decades. While there are valuable insights from that, we do not regard what has occurred there as anything like an adequate response.

The CFMEU is not able to cost such programs – they need to be developed. It is suggested that many billions of dollars will be required. While that may seem a lot, it will be minor compared to the overall investment required to substantially decarbonise the electricity supply industry.

The affected regions

While the location of gas-fired power stations is fairly diverse, coal-fired power stations are located in areas with significant coal resources, as the transport costs for coal are significant and can be minimised by co-locating with coal mines. Thus:

- All four major brown coal power stations in Victoria are located in the Latrobe valley east of Melbourne,
- The four black coal power stations of NSW are all located in the Newcastle / Hunter Valley and Lithgow areas
- The eight black coal power stations of Queensland are located to the west of Brisbane (drawing on the Surat coalfield), and near

Gladstone, Rockhampton and Biloela adjacent to the central Qld coalfields.

- The four black coal power stations of Western Australia are located near Collie.
- The two black coal power stations of South Australia are located in Port Augusta drawing coal from Leigh Creek.

In all these areas analysis of employment in power generation, transmission and distribution, and associated coal mining shows that at least 5% of all employment is directly in those industries. More commonly it is 10%, and reaches 20% in place like Lithgow (NSW and Collie (WA). Then there the people employed in associated manufacturing and service industries.

These regions will be hit hard by policies that aim to rapidly curtail coal-fired power generation. The alternative employment options, where they exist at all, tend to be less-skilled, worse paid and more insecure (for example, winery and tourism jobs in the Hunter valley)

The equity criteria for climate policy that the CCA professes is meaningless unless those policies deal explicitly, proactively and fairly with those workers and those regions.

Coal-fired power stations are already closing or slated for closure

A number of coal-fired power stations have already been closed, slated for closure, or mothballed:

- Munmorah power station – NSW – 1400MW - closed in 2012
- Wallerawang power station – NSW – 1000MW - closed in 2014
- Redbank power station – NSW – 144MW – closed in 2014
- Tarong power station – Qld – 2800MW – 2 units totaling 700MW idled in 2012; one returned to service in July 2014

- Playford power station – South Australia – 240MW – only operating in summer for some years – closure in early 2016 announced
- Northern power station – South Australia – 546MW – closure in early 2016 announced.

This list does not include the many power stations running at reduced capacity utilisation. These power stations are less economically viable, and are also deteriorating more rapidly due to being run as intermediate rather than base load.

AGL - one of the three major vertically-integrated power utilities – has announced that it will build no new coal-fired capacity that has unabated emissions.⁴ Its current fleet of coal-fired power stations are scheduled to be closed as follows:

- Liddell power station – NSW – 2000MW – 2022
- Bayswater power station – NSW – 2640MW - 2035
- Loy Yang A – Victoria - 2210MW - 2048

The major power utilities and various environmental groups have argued that there is significant excess capacity in the market and that more power stations should be closed sooner rather than later. The former chief executive of AGL stated that there is 9000MW of excess capacity – equal to one third of the base load capacity of the NEM - as part of a strategy pressuring governments to pay for power stations to be closed.⁵

Conclusion

As part of achieving large cuts in emissions, major restructuring of the power generation sector will occur. The CCA, other parties and protagonists need to move beyond a focus on technologies and broad economic impacts to addressing where major adverse impacts will occur.

⁴ AGL Greenhouse Gas Policy issued April 2015

⁵ <http://reneweconomy.com.au/2013/agl-says-9gw-of-baseload-fossil-fuels-no-longer-needed-35369>

That often isn't easy, but in the case of power generation it is pretty easy to see where the impacts will be large and adverse.

The history of Labour Adjustment Programs in Australia has been mixed at best and generally woeful. LAPs are generally an after-thought that is tacked on at the end. Almost always, the affected workers and communities are left much worse off.

Thus far, this pattern is being repeated in climate policy. That is nowhere near good enough, especially when the policy framework is meant to include equity considerations as a guiding principle.

The CFMEU recommends that the Climate Change Authority make a far more integrated and deeper commitment to developing targets and the pathways to achieve them that is just and fair for all Australians. If that doesn't extend to large-scale programs for the regions that we know will be hard hit, the policy program will not have met the equity threshold.