



THE HON DR CRAIG EMERSON MP
MINISTER FOR TRADE

Transcript
ABC Insiders with Barrie Cassidy

21 March 2011

E&OE

Subjects: Japan, Carbon Pricing, Doha

CASSIDY: We'll go to our program guest now. That's the Trade Minister, Craig Emerson. He joins us from our studios at Parliament House in Canberra. Minister, good morning, and welcome.

EMERSON: Thanks Barrie, thank you.

CASSIDY: We'll start with the implications for the region of events in Japan. Perhaps you could start by explaining why Japan's exchange rate has gone up in a crisis.

EMERSON: Yeah. It's fascinating really because, as I understand it, it's a consequence of the Japanese people being very patriotic and wanting to bring back their foreign currency savings in other countries, and then exchanging them for Yen. That drives the price of the Yen up. So you get this perverse result where the Japanese people, being very patriotic, wanting to bring the money back to rebuild Japan, are actually forcing the exchange rate up, and that's causing the competitiveness of their exports to decline. So they're trying to do the right thing, but that collective action itself is actually damaging to Japan's immediate prospects.

CASSIDY: And is that a matter of concern for Australia? Does that take investment out of this country?

EMERSON: Not so much. In fact, the G7 grouping of countries has intervened to try to offset this appreciation of the Yen. It does actually mean, incidentally, that our exports become a little bit more competitive, but that's not the main point of this argument. The point is that, you know, a lot of people

trying to do the right thing by Japan are actually causing some economic damage in addition to the damage that's already occurred directly as a result of the earthquake. And my understanding there, Barrie, is that this will be significantly bigger than the Kobe earthquake economic impacts of 1995. That was \$100 billion back then, so we're looking at a very large amount of money, a large amount of damage, and I'm sure that's why the Japanese people are actually bringing that money back in, because they know that there's a big rebuilding job to be done.

CASSIDY: Well, as part of that damage, does that mean that there will be disruption, obviously, to their manufacturing industry, and does that have implications for Australian trade?

EMERSON: Look, it can a little. They are very high-tech manufacturers. I don't think it would be significant in relation to Australia. I've seen reports of concerns in the United States because the sorts of things they do are machine tooling. That is, in addition to high-tech electronics, it's actually the tools that are used in high-tech facilities in the United States and Europe. So that could have some disrupting effect, but there's a fair bit of spare capacity in the Japanese economy. And then there are other economies that are producing similar things, so I don't think that that will be the major impact.

I think it will actually be the direct impact on Japan of its purchasing power because, you know, they'll have to do a lot of rebuilding. But in the very short time that rebuilding – again perversely – stimulates demand. So you get all the comings and goings, put it all together and it's a very big impact. But I don't think the impact on Australia would be very significant – certainly in the short term, Barrie.

CASSIDY: What about on the nuclear crisis, then. If there is a scaling back – perhaps a worldwide scaling back on that – what would the impact of that be?

EMERSON: Well, it's a bit early to speculate about that, of course. Again you and I will have seen reports that countries are reassessing their position on nuclear energy, on building new power stations and so on. Some would argue that that would have a negative effect on the value of Australia's uranium reserves, but a very important resource that we have, which is regarded as a fuel in transition, is our natural gas reserves.

It will probably substantially, if anything, increase the value of those reserves – the reserves that are sitting in the ground and being developed right now. So with all things economics there's some things that go down, other things that go up. But, if anything, it's probably substantially increased the value of those gas reserves.

CASSIDY: But whatever the safety aspects, though, of nuclear power, clearly it's the one power that is free of – essentially – greenhouse gas emissions,

so would that then, if there was a scaling back, would that make it more difficult for some countries around the world to hit their targets?

EMERSON: Well, that's right. If there were a scaling back, given that nuclear is zero emissions, that puts the pressure on other renewable energy sources to come to the fore. That creates economic incentives, in fact, for renewable energy sources to come to the fore, which, in terms of the global environment, is not necessarily a bad thing. And in relation to natural gas, it emits about half the emissions of coal. So that means that gas becomes a more important energy source in the whole equation. It also would increase the incentives for what's called geo-sequestration for coal. That is, putting the carbon dioxide into the ground.

So if these sorts of changes do occur in relation to nuclear, that will set in train a new set of incentives because, as you point out, that means the imperative of reducing emissions is even greater, and that increases the economic attractiveness of some of these alternatives.

CASSIDY: Okay, if we can talk about this – the talk of tax cuts now, and Ross Garnaut, of course, is saying the best way to compensate households from a price on carbon is through tax cuts. He's been a bit of a mentor of yours over the years.

EMERSON: He has.

CASSIDY: Does his idea have some merit?

EMERSON: Well, we have indicated for some time – as has Ross in his 2008 report – that there does need to be compensation for households. Now, I guess you could put households into two categories, those who are in the tax system, and those who are not. Age pensioners generally are not in the tax system, so tax cuts, of themselves, wouldn't be of benefit to age pensioners. So they would be looking at an increase in the age pension as part of the generous compensation that the government has been talking about.

But for those in the tax system, what we have said is that we would concentrate that compensation on lower and middle income earners, and so that, yes, that could mean that we would be looking at tax relief, compensating tax relief for lower and middle income earners.

A point by the way, Barrie, that Tony Abbott and his colleagues would well have understood, when they sat around the Cabinet table and said that they are going to terminate – remove – the carbon price, well, that means that they are going to grab back the income tax cuts associated with our carbon pollution reduction arrangements. So he knows what he has done in making that decision, has announced that they will reap those tax cuts back, and potentially reduce the age pension as well.

So Tony Abbott, the guy who says, 'Hey, we're from the Coalition. We're for low tax,' they never have been and they are demonstrating

again that they wouldn't be because he'd have to take those tax cuts back.

CASSIDY: But would you say this is a convenient way to do it, though? That because you reach more people – but by your own admission you miss pensioners – you would miss the unemployed?

EMERSON: Well, I didn't say that this was exclusively the only option on the table. What I'm saying is tax relief – compensating tax cuts – is an option. Increasing payments for those who are in the income payment system, whether it be age pensioners or other types of pensioners, that's an option as well.

This is not new. What we are saying is that it is a live option, and we are looking very closely at it, but these are the sorts of things that we were looking at before. And Tony Abbott knows that, and that's why it's so significant that he and his Shadow Cabinet would have had a discussion to say, 'Yes, when we yank out the carbon price, we are going to take back the tax cuts, and we are going to reduce pensions for lower income earners and age pensioners.' Now, I reckon that's pretty callous, but that's the sort of thing he's up to.

CASSIDY: If you were to do it this way, though, you could hardly call this tax reform. It might be tax relief, but it would be more political opportunism than tax reform, wouldn't it?

EMERSON: No, we've always indicated that we would provide generous compensation for lower income earners and also for some middle income earners.

We've indicated that all the way through, so this is not something that has just been dreamed up. What the Prime Minister has said is that this is a live option. And it is a live option. Tony Abbott knows it's a live option, and that he knew when Shadow Cabinet said that they would yank out the carbon price, you're yanking out the tax cuts. You're yanking out an opportunity for some tax reform here as well. Now they say they're the party of low taxes, the party of tax reform. Well, rubbish, because they are going to put the whole thing into reverse gear, and so we have no insulation against other countries acting against Australia for doing nothing on carbon pollution reduction. No insulation whatsoever, and under Tony Abbott you'd have higher taxes and lower pensions – great deal, Tony.

CASSIDY: Would \$6 billion, though, be enough to cover the cost of compensation?

EMERSON: And this is where we're not getting into the detail at this stage, Barrie, because we've got to work through the most effective and fairest compensation package for lower and middle income earners. And that's what we're doing now.

But the idea, and the commitment to provide generous compensation for lower income earners in particular, is not new. What we are saying is that tax cuts and some tax reform possibilities do emerge from this.

You saw Ross Garnaut on your program – and I saw the tape – of him saying there may be some opportunities for tax reform. I don't want to overstate that, because, you know, let's see how it comes out in the end, but the concepts are right, that we would provide tax cuts, we would provide benefits in terms of compensating adjustments in pensions.

Tony Abbott would reverse both of those, and he needs to explain to the Australian people why, when they sat around that Shadow Cabinet table, they were able to make that callous decision all for the opportunistic position of being able to say they won't have a price on carbon. Bad for the environment, bad for working Australians, bad for low income earners and bad for Australian pensioners. Great deal, Abbott.

CASSIDY: When you work your way through this though, and try and come up with an outcome, you won't be negotiating with Tony Abbott, you'll be negotiating with the Greens. The Prime Minister says this party has no history of striking the right balances. How are you going to negotiate with them?

EMERSON: Well, the Greens three times voted against the carbon pollution reduction scheme. And I think and hope they'll have pondered the fact that they did that. They would have to vote against our emissions trading scheme, putting a price on carbon.

Now I think that a lot of Greens supporters would say, if the Greens are so concerned about reducing carbon emissions into the atmosphere, why do they keep voting against it?

And so, yes, there will be a negotiation, but I think that the Greens will need to understand, and I hope they do understand that not only will people be watching the Government, they'll be watching the Greens as well to ensure that they do the right thing by Australia, contribute our national effort towards the global effort of reducing carbon pollution into the atmosphere.

And I know Piers says, 'Oh, it's only 1.5 per cent.' Other countries are moving, and if we stay in the past, instead of being part of the future, then we could face a very severe economic dislocation as other countries say, 'Well, one major country, in terms of emissions per capita, has done nothing, and in fact has yanked out – if Tony Abbott gets his opportunity – the one thing it's put in place, a carbon price'. Then I would fear for our economic future, not only for the environment.

CASSIDY: I just want to ask you, finally, about the Doha round, because it seems to have gone a little quiet lately. How gloomy is the outlook?

EMERSON: Look, I am concerned about the Doha round, Barrie. There has been a lot of discussion amongst the major countries about the price that they would have to pay for a successful Doha round. That is, the tariffs that they might need to reduce, the improved market access into their countries. All right, well, have a discussion about the price for success. But there should be a real discussion about the price of failure.

And the price of failure would mean a deterioration in our international trading rules, opening the door for those countries that might want to increase protection, and I think that that's the discussion that needs to take place while these negotiations are going on in Geneva right now.

So I call on the major countries of the world – we're not the problem, we are facilitating an outcome here, as a friend of the system. But it's all right to talk about the price of success, but let's have a proper discussion of the price of failure of the world trading system.

CASSIDY: And how urgent is that, given that 2012 is the election season in many places?

EMERSON: Yeah, look, it is really urgent. These discussions are going on right now in Geneva. They've been going on for a few weeks. We had a meeting in Switzerland of seven countries. It was good that Australia was there. I was able to represent Australia as one of the seven major countries involved in trying to sort all of this out.

There was a political commitment given at that meeting. It's got to be translated now into action. Parties are talking, and the atmosphere is better, but our sense is that there's not a lot of movement, and there's not much time. In fact, very little time to go before we won't be able to hit the 2011 deadline. And as you say, Barrie, 2012 there are elections in the United States and other major countries, so I think that's a real problem. We've got to give it a red-hot go for 2011.

CASSIDY: Thanks for your time this morning.

EMERSON: Thanks Barrie.