

Australian Labor government crisis deepens over carbon tax

Patrick O'Connor
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The Labor government of Prime Minister Julia Gillard confronts an escalating crisis over its proposed carbon tax. Hostility among working people is increasing, as the regressive impact of the tax becomes more widely understood. At the same time, the government's key constituency—finance capital and big business—has expressed growing reservations, while powerful sectional corporate interests, such as the mining giants, are campaigning for billions more in “compensation”.

Gillard's carbon tax, like the emissions trading scheme advanced by her predecessor Kevin Rudd, has been promoted as a measure aimed at preventing climate change, but it will have no positive impact on the environment. The tax—a “free market” response to a problem caused by the destructive operations of the capitalist market—won't significantly reduce carbon emissions within Australia, let alone contribute to an international solution to global warming. Labor's policy was in fact conceived as a pro-business economic reform, not an environmental measure.

Gillard announced the carbon tax shortly after BHP Billiton CEO Marius Kloppers intervened last September, delivering a speech in which he insisted the measure was needed to maintain the competitiveness of Australian capitalism and develop a national energy supply less dependent on coal. Kloppers suggested that Australia, the highest per capita emitter of carbon dioxide, could have its exports hit with “green” tariffs in Europe and other regions if nothing were done.

The prime minister immediately responded—junking an explicit pledge issued before the federal election last August not to introduce a carbon tax. Further underscoring Gillard's hypocrisy and the illegitimate character of the proposed tax, it is now known that in early 2010 she urged Rudd to dump the emissions trading scheme because it had come to be regarded as too politically risky. Support for the Labor Party, according to an opinion poll published in the Fairfax newspapers last week, now stands at just 31 per cent—a 15-year low.

Of those surveyed, 59 percent opposed a carbon tax, while 34 percent were in favour.

Gillard is now promoting as the carbon tax as a major pro-business reform, equivalent to the “free market” privatisations and deregulation measures implemented under the previous Hawke-Keating Labor governments in the 1980s and early 1990s. She has nevertheless proven unable to rally the support of key sections of business.

In a letter to the prime minister sent by Business Council of Australia president Graham Bradley on April 15, the government's decision to allocate more than 50 percent of the carbon tax revenue to households as so-called compensation was described as “disappointing”. Bradley then echoed the Liberal-National opposition position that as Australia contributed 1.5 percent of global carbon emissions, the government “should act in tandem with international action, not ahead of it”. The BCA chief bluntly declared that the enormous subsidies offered to business under Rudd's previous emissions trading scheme were inadequate.

This letter triggered what the *Australian Financial Review* characterised as “a co-ordinated attack on the Business Council of Australia” by Gillard and senior Labor ministers.

BCA representatives were reportedly “targeted” by Treasurer Wayne Swan, Climate Change Minister Greg Combet and Resources Minister Martin Ferguson during a closed-door meeting involving heavy polluters on April 19. On the same day, Gillard wrote a letter of reply to Bradley in which she demanded the BCA explain its position on the government's target of lowering carbon emissions by 5 percent of their levels in the year 2000 by 2020, and on the use of a “market mechanism” to deliver this reduction. Bradley in turn issued a terse reply, “acknowledging” the 5 percent target and supporting a market-based “carbon price”.

The BCA, which represents Australia's largest 100 corporations, was a keen supporter of the so-called Carbon Pollution Reduction Scheme before former Prime Minister Rudd shelved the measure, exactly 12 months ago. Rudd had secured a virtual consensus within big business, and completed a deal on the proposed legislation with then opposition leader

Malcolm Turnbull. This bipartisan agreement ensured that there was no public scrutiny of the scheme's impact on costs of living for ordinary people. But in December 2009 the Copenhagen summit that was supposed to negotiate a post-Kyoto climate change treaty collapsed, and Turnbull was ousted by Tony Abbott, who reneged on the deal with Rudd and opposed any emissions trading scheme or carbon tax.

The debacle at Copenhagen dashed the Labor government's hopes of a rapid expansion of interconnected emissions trading schemes (ETS) throughout the Asia-Pacific region. The market mechanism was a central part of the Kyoto Protocol, and was to be the primary means of restricting emissions under a successor agreement to Kyoto, which expires next year. Rudd promoted the prospect of Australia gaining "first mover" advantage by establishing an ETS ahead of other Asian economies and positioning Sydney as the regional financial hub for an Asian-wide carbon market. Australian banks and financial institutions stood to make enormous profits from trading and speculating on "carbon credits".

There is no such prospect under Gillard's carbon tax—which is why the banks and major financial firms have been silent throughout the official debate on the measure. Because of Copenhagen's failure, China and India will not develop emissions trading schemes in the immediate period. Moreover, Japan's ETS is due to begin operations in 2013, and South Korea's between 2013 and 2015—ahead of the Labor government's proposed transition from a carbon tax to an ETS at some point before 2018. Until this happens, there will be no trading of carbon credits within Australia—because a carbon tax involves corporations paying a flat rate for the energy they consume—and in the event that a lucrative Asian carbon market does come into existence within the next decade, it will likely be Tokyo, not Sydney, which functions as the trading centre.

BCA chief executive Jennifer Westacott told ABC Radio last Thursday: "One of the critical things we don't know is how long the fixed price period will go on for [and] what will be the trigger points to move to a trading scheme."

With the Gillard government unable to secure the backing of key business groups, like the BCA and the Australian Industry Group, it has come under fire from sectional interests that are bitterly opposed to any surcharge on energy consumption. These include many major exporters, facing pressure from the appreciating Australian dollar and concerned over continued instability in the world economy.

Sections of the mining industry, buoyed from their victorious campaign against Rudd's mining tax, appear to be gearing up for a similar confrontation with Gillard. The coal miners have demanded more "compensation" and that so-called fugitive

carbon emissions—those released in the process of extracting coal from the earth—be exempted. LNG companies, led by Woodside, have demanded that they be exempted from the scheme entirely. Woodside executives have been among the most outspoken against the Gillard government—reflecting the rapidly growing weight of the LNG operatives within the Australian corporate elite. In the past three years, enormous LNG projects have come on-line in Western Australia and Queensland, and Australia has been predicted to soon become the world's second largest gas exporter.

Gillard is also confronted by the major steel producers, backed by the Australian Workers Union (AWU). Paul Howes, AWU chief, was among the Labor Party and union apparatchiks who played a key role in the inner party coup that ousted Rudd as party leader and prime minister last year. But he has now threatened to withdraw support for Gillard's carbon tax if "one job" is lost in the steel industry.

More business lobby groups are weighing in. Last week 19 food and grocery companies—including Nestle, Bulla Dairy and Kimberly-Clark Australia—demanded that the government meet with them to address their concerns over the impact of higher energy costs.

The Labor government is clearly becoming frustrated. According to the *Age*, Gillard warned business not to "rattle her cage" with false claims of lower investment and job losses caused by the carbon tax. Greg Combet told ABC's "Inside Business" that the time for "grand statements" by industry leaders was over, and negotiations needed to be conducted in private.

There is mounting media speculation about the prospect of the minority Labor government collapsing if Gillard proves unable to legislate the carbon tax. The *Australian's* editor-in-chief Paul Kelly wrote an article last Wednesday, "Perfect storm for carbon crusader", which concluded: "Industry has its eyes and its ears open ... it can smell the weakness of Gillard Labor, the loss of its authority, the stench of Labor's vulnerability. This is a lethal political atmosphere for Julia Gillard."



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