

Inside Canberra

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

Vol. 63, No. 693

From the Gallery

July 2nd, 2010

- The international miners have decided there's little chance of Tony Abbott winning the next election. In coming to a deal with the Gillard Government – announced this morning – the miners have made Abbott's defeat even more likely.

- While Rudd was in power, the mining giants looked to have the upper hand – although it is now emerging that Rudd and Wayne Swan already had, or were close to, a deal similar to that announced by Gillard. The changes reducing the scope of the tax – cutting the headline rate to 30% and lifting the entry point of the new tax to 13% profit – has cost taxpayers \$1.5 billion.

- Whether it will get through the Senate after the election is another question. Abbott has been badly snookered. If he persists with the claim the tax deal is bad, he will have to either except it as inevitable, or put forward an alternative before the election. Gillard has cleared away the main problem she faces. She will soon announce what she intends to do in the area of asylum seekers and global warming.

- For their investment of \$7 million in advertising against the original tax, the miners have saved around \$1.5 billion at least. Having made such a saving, will they now tip cash into the parties' election campaign war chests?

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Elections: No rush, but don't delay too long

We don't know when Julia Gillard will call an election, nor the date of the poll. Sundays are good days to go Government House seeking an election. The shots of Gillard leaving for, arriving at, and coming back from Yarralumla, would be all over evening TV and, on Monday morning, would dominate the news. Before that, she has to give a little time for the aura of Prime Minister to settle over her. Also, the new PM would want to demonstrate she is not rushing into an election just because of good polls. On the other hand, she is being told by many MPs the sooner she jumps in and takes advantage of her popularity, the better.

Reuters poll trend good for Gillard

Reuters Poll Trend - which analysed all the polls this week - has the two-party preferred as ALP 51.6%, Coalition 48.4% (a gap of 3.2%), bettering the thin advantage Rudd had in the last Reuters Poll Trend, of only 1.4%. The improvement under Gillard would have been even greater, but for a strange Morgan poll. It showed that after Gillard took over, Labor was 2% behind the Coalition. All the other polls – Newspoll, Nielsen, Essential and Galaxy – showed Labor improving with the departure of Rudd. As 'Preferred PM', Gillard has opened up a 19.2% lead over Tony Abbott, an increase on the last reading of Rudd, where the lead was 15.8%.

Late August, early Sept looking likely

The election will not be next year because of the NSW state election in March, nor can it be as late as November/December, because of the Victorian state election on 24 November. This suggests that the latest date for an election could be the first or second Saturday in November. More likely it will be soonish, 28 August or 4 September. Gillard need not worry about being accused of taking the Parliament out early on these dates. The average time between elections since 1949 is two-and-a-half years, and a late-August, early-September election would be around the average.

Gillard not hurt by her frankness as an atheist

Julia Gillard will not be hurt by revealing that she is an atheist. The founding fathers wisely decided that Australia should have a secular Constitution, not attached to any religion. Of the 12 Prime Ministers since the war that preceded her, Kevin Rudd alone was overtly Christian. He wore it like a neon sign on his sleeve. Press conferences outside church on a Sunday were common. Neither Curtin, Chifley, Menzies, Holt, Gorton, McMahon, Whitlam, Fraser, Hawke, Keating nor Howard were regularly seen on their knees – apart from funerals and weddings. Hawke, as PM, was an agnostic, and Whitlam a proud atheist. Whitlam earned the undying hatred of the churches when he removed sales tax from the contraceptive pill for women. The general population thought it a great idea.

Churchgoers a declining and small group

Last Easter, the churches and atheists had a good old stoush on whether or not there is a God. Whatever the intellectual argument, it is clear that most Australians don't give much time to God. Bureau of Statistics figures show that in 2001, barely 10%

Coroner's inquiry into Martin's death

named a Christian religion to which they adhered. Between 1996 and 2001 (a mere five years), the number of adherents dropped by 7%. As the biggest denomination, Catholic numbers were a mere 764,800 in 2001, amounting to a dismaying drop (for the church) of 13%. Anglican/Protestant - the next biggest denomination - at 759,000 was steady. Only the Holy roller, hot gospeller, minority groups such as the Hillsong Church (the happy clappers), gained substantial ground. Howard as PM and Peter Costello (who was ambitious to be PM), believed it was worthwhile to turn up at Hillsong Church events. Regular church attendance is currently less than 8% of the total population.

Close attention will be given by governments and businesses to the ACT coroner's inquiry into the death of John Martin, found hanged in his Canberra home on 20 June. His friends link his death with the pressure Martin was under involving competition policy in the ACT. The coroner's office told *Inside Canberra* the inquiry would be in three to four months. ACT Police will provide a report to the coroner. The inquiry will almost certainly hear of the professional disagreements on competition issues between the chairman of the ACCC, Graeme Samuel, and Martin. The tension between Samuel and Martin goes back to 1995-97, when Samuel was president of the Australian Chamber of Commerce and Industry, and Martin was chief executive. In the 2003 election, John Howard promised that a small business deputy Commissioner would be appointed to the ACCC. His Small Business Minister, Fran Bailey, made it clear she wanted Martin for the position. Samuel, however, did not agree, and Martin remained a commissioner, while neither of the two deputy commissioners were given the title by Samuel of Small Business commissioners.

Planning powers and supermarkets

On his retirement from the ACCC last year, Martin set up as a consultant and was commissioned by the ACT Labor Government to report on supermarket and wholesale grocery issues. The ACT Government's concern about the power of Woolworths and Coles was consistent with the deliberations of the Council of Australian Governments (COAG - CoA with and state & territory governments). COAG had endorsed the recommendations of the ACCC inquiry into grocery prices, which advocated the use of planning powers to control supermarket competition. Martin recommended, among other things, that the ACT Government use its planning powers in granting supermarket leases. As a result, Woolworths and Coles were excluded from bidding for various leases in Canberra. Although disagreeing with the Martin report and its implementation by the Stanhope government, Samuel was powerless to overturn the policy. Martin came under more pressure when both Finance Minister, Lindsay Tanner, and Small Business Minister Emerson, wrote to Stanhope opposing the policy and insisting that there was ample competition among full-line supermarkets in Canberra.

Emerson opposes lease restrictions

On 16 June, in an interview on radio in Canberra, Craig Emerson was forthright about his opposition to the policy: "We believe in competition. We believe it is good, more competition is better. And when you knock competitors out of the market, then the others that remain in the market know that they don't have to face that stiff competition. And the potential losers from that are the supermarket customers in the ACT. So we don't support the policy of the government here in the ACT". *Inside Canberra* finds the arguments of Emerson curious. If Woolworths and Coles continue to win choice sites for new supermarket leases, surely that amounts to lessening competition and greater movement towards a supermarket duopoly. The Commonwealth has the power to strike down decisions of territory governments. Rudd did not use the powers to side with Emerson, and we doubt that Gillard will. Often forgotten in the argument about consumers' rights are the rights of suppliers to Woolies and Coles. Be it pig farmers, potato growers, or biscuit manufacturers, the two supermarket giants can wring tough supply deals from them.

Libs still wrong on debt

Last weekend, Tony Abbott put forward a 12-point plan to the Liberal Federal Council, headed by a promise to restore the budget surplus within three years and start paying off Labor's debt. Most economists forecast the budget will return to surplus in 2013/14, two years earlier than the

Stimulus halts jobs decline

Rudd government's initial forecast. In its latest quarterly outlook for the economy, the Reserve Bank of Australia (RBA) says the nation's terms of trade – the ratio of export prices to import prices – is expected to return to the peak of 2008 due to higher prices for iron ore and coal. The anxiety of both sides of politics to rush back to budget surplus is designed to impress voters, and has no intrinsic merit. The Coalition has always been on the wrong side of the economic argument since the Labor Government launched its \$42 billion stimulus package, passed by Parliament in early 2008.

Initially, Malcolm Turnbull (when leading the Libs) and Joe Hockey deplored going into any debt. Later, the Libs agreed some stimulus was necessary, but could not say by how much it should be reduced. Not only did the government's stimulus package stop the drift into serious unemployment, so did the 2008 announcement by Beijing of an \$855 billion economic stimulus package. Australia's government debt at around 10% of GDP is easily handled, and far below nearly every OECD country. The debt argument boils down to this: modest debt levels are acceptable and normal; there is no need to pay off such debt if a greater return can come from spending in other areas, such as infrastructure.

Abbott wants to be national policeman

Unsurprisingly, Abbott had in his dirty dozen list a promise to deal with the non-problem of boat arrivals. More bizarre was Abbott putting himself forward as an expert on neighbourhood lawlessness. He proposes to make us all safer with more closed circuit TV cameras. This policy is in line with his view that the founder of the Liberal Party, R.G. Menzies, should be dumped and the states overridden in any field desired by Canberra. We would have thought that state Libs would prefer the police handle these problems. Does Abbott seriously suggest that a bureaucrat in Canberra knows more about handling neighbourhood violence in Cairns or Perth than the local coppers? The police believe much tougher restrictions on late night drinking would do a lot to curb violence. That is something state governments have to deal with.

Gillard a climate believer

Julia Gillard said on the *Nine Network* at the weekend: "I believe in climate change. I believe it's caused by human activity, and I believe we have an obligation to act". This is a clear, unambiguous statement on where she stands on a major policy issue. It contrasts sharply with the verbal complexity of Kevin Rudd. Now for the action. Exactly what type of action on climate change is proposed is yet to be revealed, but it surely must be an improvement on the Carbon Pollution Reduction Scheme (CPRS) that was blocked in the Senate, and then dumped by Rudd. Gillard is equipped to explain to voters how her new scheme will work. The PM said she had doubts about the emissions trading scheme because there was no lasting and deep community consensus for it. "I was concerned that if you were going to do something as big to your economy as put a price on carbon, with the economic transfer that implies ... you need a lasting and deep community consensus to do it. I don't believe we had that lasting and deep community consensus."

Need to change our behaviour

Climate change will be an issue in the election, and Tony Abbott comes to it in a weaker position than Gillard. What she should avoid is a timid target for reduction of emissions by 2020, and over-generous compensation. There should be no compensation for households, and lower to middle income families could be assisted in other ways (welfare, tax, direct payments, etc). It is important that the community faces the additional, but small, cost of emission reduction. Fortunately, Gillard doesn't have to visit every nook and cranny of the economy. Her priorities should be coal fired electricity generation, vehicle emissions and green buildings. She should also abandon, or greatly restrict, the purchase of emission permits based on reductions in emissions of other countries. The government has to change behaviour in Australia. There is also a need for a much more vigorous development of renewable technologies. Work should be accelerated on such technology as coal fired power stations pumping CO₂ into ponds to promote growth of algae, which can then be processed into emission free diesel.

Climate Institute survey

Gillard's comments come on the back of a survey that shows the Government could gain significant support from swinging voters if it does more to address climate change. The Climate Institute poll, which surveyed 1,000 people - and was also conducted on behalf of several other green groups - found that many Australians want concrete plans to deal with climate change. More than half of those surveyed had lost confidence in Labor's ability to deal with climate change, and over two-thirds had lost confidence in either major party dealing with the issue. At least 36% said they would be more likely to vote for the Government if it did take action before the election. The Climate Institute's head, John Connor, says the Government will be rewarded at the next poll if it acts quickly. "There's a very strong net benefit there for the Labor Government, for the Prime Minister, if she comes with a strong plan for pollution and climate change," he said. "They can reap rewards if they have a plan to cut pollution, to make polluters take responsibility."

Climate "crap" burdens Abbott

Tony Abbott is not well placed in the climate debate. He famously declared the "so-called settled science" of climate change to be "crap". In May, Abbott changed his mind and told business leaders he is now "confident ... mankind does make a difference to climate". He was not convincing and his 'crap' mistake will be long remembered. Abbott supported emission trading when Turnbull was Lib Leader. When he won the leadership by one vote, Abbott came up with his own painless direct action alternative, immediately described by Turnbull as "bulls***". When Turnbull changed his mind about leaving politics, he softened this to adhering to his support for emission trading, while conceding that Abbott's direct action "could", in the short term, meet the agreed target of a 5% reduction in greenhouse gases by 2020. Hardly a vote of support. As far as we know, Joe Hockey - an obvious leadership prospect - has not backed down on his support for an ETS, although he must adhere now to Abbott's policy.

Company tax cut not insignificant

Abbott's lack of experience in a financial portfolio is showing, and he made a mistake in downplaying the government's proposal for a 2% cut in company tax (now to be 1%). "No one much is going to notice a 2% cut in company tax," he told ABC's *Insiders*. The ANZ's chief economist, Warren Hogan, said cutting the current 30% rate by 2% represented an effective 6% tax cut, adding, "I think it would be beneficial." ACCI is also in favour of the company tax cut. The Government is looking to fund the cut from the proposed mining tax. "Everyone will notice a massive hit on the mining sector," says Abbott. No they won't. It simply means the profits of miners, largely repatriated overseas, will still be impressive, rather than astronomic. True, as Abbott said, the mining sector brings in about 50% of export income, and it will continue to do so. But the mining tax is about profit, not income. What this debate underlines is the lopsided nature of the Australian economy. We have remarked before that Jack McEwen, Trade Minister in the Menzies Government, once declared that Australia was not going to simply be a quarry for the rest of the world. The economy is more unbalanced now that it was then. With global warming threatening the output of the agricultural sector, Australia simply must diversify its economy.

Libs mental health initiative

Abbott's promise of \$1.5 billion for mental health is regarded as smart, and snookered Gillard on an important health issue. He has homed in on an obvious weak point in Labor's health policy. The gloss goes off the deal somewhat because it is to be paid for by cuts in other health services, such as dumping GP super clinics. That aside, Abbott would have been better advised to hold the initiative back until the election campaign proper. Now he has given Gillard plenty of time to out-bid him. The strategic weakness of such announcements is that he invites debate on his own administration as Health Minister, and personal views against abortion & embryonic stem cell research.

'Inside Canberra' - bringing you the latest business intelligence from inside Federal Government - is published every Friday, and is available by email subscription for A\$375 (inc. GST) for 46 issues each year.

The Newsletter is published by Business Communications Group. Correspondence should be addressed to:

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