

Joint Statement

Towards a Green New Deal:

Economic stimulus and policy action for the double crunch

“We’ll put people back to work rebuilding our crumbling roads and bridges, modernizing schools that are failing our children, and building wind farms and solar panels, fuel-efficient cars and the alternative energy technologies that can free us from our dependence on foreign oil and keep our economy competitive in the years ahead.”

- US President-elect Barack Obama, 22 November 2008

By bringing forward a \$300 billion recovery plan that heavily emphasises green job creation and large-scale investment in renewable energy and fuel-efficient vehicles, President-elect Obama has outlined a path that can meet both short-term economic and long-term environmental imperatives.

There is a compelling case for Australia to do the same. Faced with inevitable job losses from the fallout of the global financial crisis, a green stimulus package could be the basis for a ‘green new deal’ for Australia, building prosperity whilst insulating the economy against future shocks. Nobuo Tanaka, Executive Director of the International Energy Agency, recently encouraged the Australian Government to invest more in energy efficiency, noting that such investments reduce pollution, stimulate economic activity, and help protect households against rising energy costs.¹

Measures to stimulate the economy in the current economic climate should be carefully targeted to ensure that we emerge from this period with a stronger and more resilient economy, while positioning Australia to reduce emissions and develop competitive and healthy green industries and green jobs. Combining strong climate policy settings with focused economic stimulus can sustain the great opportunity for green jobs growth in Australia.

A three-pronged approach to a green stimulus package

An economic stimulus package could create a double dividend of economic benefits and a reduction in carbon pollution by focusing on the following three areas:

1. **Building retrofitting:** roll out a major nationwide program and increase incentives to improve energy and water efficiency of existing residential, commercial and public buildings.
2. **Sustainable infrastructure:** bring forward infrastructure investment in assets that reduce our carbon footprint and improve natural and social capital - focusing on public transport, expanded rail networks for freight, renewable and clean energy and sustainable water infrastructure.
3. **Green jobs policies:** make green jobs a centrepiece of economic and industry policy, with a strong 2020 carbon pollution reduction target, ambitious environmental policies to create demand for green products and services, and coordinated plans to grow key green industries.

¹ John Breusch, “IEA urges household efficiency”, Australian Financial Review, 26 November 2008 p. 12.

Such a stimulus package would achieve the following objectives:

- Immediate economic stimulus and job creation, in particular through the building retrofitting investments;
- Longer-term steady generation of economic and jobs activity, through infrastructure investments;
- Preparation for a low emission future by reducing greenhouse gas emissions, improving energy efficiency, and using our water resources more wisely;
- Promotion of export-competitive green industries and green collar jobs; and
- Assistance to low-income and other vulnerable households to cope with economic uncertainty, housing affordability and fuel and electricity price volatility.

We should take our cue from governments around the world that are carefully fostering green industries and sound infrastructure investments, not simply stimulating undirected consumer expenditure. Good examples of strong action include:

- In the **US**, President-elect Obama made green jobs a centrepiece of his successful election bid and is following up with a specific green stimulus package. The President-elect's commitments include an 80 per cent carbon pollution reduction target by 2050, a 25 per cent renewable energy target by 2025, a 25 per cent energy efficiency target for existing buildings over the next decade and \$150 billion in investment over ten years aimed at creating five million green jobs.
- **China** has put in place an \$870 billion stimulus package, which is carefully targeted towards projects that enhance the environment and society, including renewable energy, rail transport and rebuilding areas affected by the Sichuan earthquake. China also has strong renewable and energy efficiency policies.
- From 2002, **Germany** implemented an ambitious program of retrofitting existing housing stock. The initiative created 25,000 new jobs and sustained 116,000 existing jobs by retrofitting some 200,000 apartments, while improving energy efficiency significantly.
- The **UK's** recent pre-budget announcement includes £50 million of investment brought forward, and £100 million of additional funding, for the "Warm Front" programme. This will assist 600,000 households in improving energy efficiency this winter. This is part of the £6.8 billion Home Energy Saving Programme, half of which is funded by energy companies.
- In Australia the ACF and the ACTU have launched a report into six industry sectors, projecting an additional 500,000 green jobs, if the necessary policy settings are put in place urgently. Australia's ambition should be to capture a quarter of a trillion dollars of industry share in what will be a global industry worth almost \$2.9 trillion dollars.

1. A national building retrofitting program – immediate green stimulus for the Australian economy

Immediate investment in a large-scale housing energy and water efficiency improvement program would have short-term direct benefits to a sector with the capacity and skills to respond quickly.

The impacts of any economic downturn are felt acutely in the construction industry. To maximise the short-term economic benefit, this program would need to scale up quickly and focus on retrofitting energy and water efficiency measures. Investments in retrofitting provide a strong and focused support for the domestic economy, both because retrofitting is relatively labour-intensive, and because flow-on benefits are concentrated in the building materials and associated sectors with strong domestic industries and substantial labour inputs.

In the residential sector, the program should include a package of home audits linked to energy and water efficiency improvements and be focused initially on 3.5 million low-income households. A recent expert report suggests such a program could create 40,000 jobs and generate energy cost savings of \$14 billion over seven years, with an investment of about \$8.7 billion.² A major retrofitting program would fit well with an expansion of innovative financing and funding arrangements including proposals for the Government's Green Loans scheme.

Appropriate incentives in the commercial building sector are crucial as well, particularly accelerated depreciation for investments in energy efficiency. A recent study by the Australian Sustainable Built Environment Council found that a suite of measures to encourage building efficiency would reduce pollution from buildings by 60 Mt CO₂-e per year and reduce the cost of the Carbon Pollution Reduction Scheme (CPRS) by an estimated 14 per cent.³ Accelerated depreciation was introduced in 1992 specifically to stimulate investment during a downturn, and it proved successful in doing so. Accelerated depreciation should be implemented as a transitional measure crafted to ensure additionality.⁴

The building industry is well-positioned to respond to this challenge, with adequate capacity to meet the demand that such a program would generate. According to the AIG Performance Construction Index, the average rate of utilisation of the construction workforce in October 2008 was 74.6 per cent. This allows for deployment into green jobs in the months to come - provided that there is immediate effort invested in green skills for Australia's trades men and women.

The Southern Cross Climate Coalition (SCCC) has called for an immediate 40,000 productivity places to be allocated for green skills development.

The retrofitting program should be designed to become an integral part of the planned national energy efficiency strategy to be discussed at COAG, but one that can start immediately based on existing experience of such programs globally and in Australia.

2. Sustainable infrastructure – an investment for the future

Bringing forward Australia's significant infrastructure spend can provide a much needed medium-term stimulus, allowing business and the community to plan now for major investments in coming years in public transport, renewable energy, and sustainable water infrastructure.

² KPMG, Brotherhood of St Laurence & ECOS, *A national energy efficiency program to assist low-income households*, September 2008, available at <http://www.bsl.org.au/main.asp?PageId=6356>. Figures are based on average assistance of \$2,000 per household and an upper bound of \$6,000.

³ ASBEC (2008) *The Second Plank – Building a Low Carbon Economy with Energy Efficient Buildings*, available at www.asbec.asn.au/research

⁴ See Climate Institute (2008) *Australia's National Strategy for Energy Efficiency*, available at <http://www.climateinstitute.org.au/images/energy%20efficiency%20policy%20paper%20final.pdf>

Focusing infrastructure priorities on projects with the highest net social, environmental and economic benefits will help set the stage for a low carbon future, and will help vulnerable communities and households in particular by reducing energy costs and providing transport alternatives. Super funds stand ready to partner with Government on this agenda, and can provide a significant contribution to the funding requirements. We urge Government to consult widely with the superannuation industry, to maximise the funds available for sustainable infrastructure.

Spending should target projects with these double dividends. A particular focus on public transport and rail freight investment can provide such benefits, and many suitable projects have been identified that can stimulate economic activity in the short to medium term. Small to medium scale renewable energy installations, such as solar, wind and geothermal plants, embedded across the public estate can also provide accelerated stimulus across cities and rural regions with a requirement for labour-intensive installation practitioners. Using existing technologies, distributed energy generation eases the burden on existing grid transmission infrastructure, provides low emissions energy, and provides stimulus to further development of a local green industry.

Public transport infrastructure is of particular importance in the current economic context, because it provides substantial direct jobs growth opportunities, as well as improves national productivity by reducing the estimated \$30 billion in annual costs to the economy attributable to road congestion, road accidents and other externalities.

Traditionally \$1 billion of public investment in infrastructure could be expected to generate just over 15,000 jobs depending on the mix of projects. This figure includes direct and indirect flow on effects with the economic multiplier estimated at about 1.5. In the carbon constrained world of today, investment in efficient and effective public transport systems yield a much bigger bang for buck with the economic multiplier in the long term being closer to 2.5. The additional return is created by the effect of massive and growing traffic congestion causing increased travel time and reducing productivity. Investments in public transport also help reduce negative effects on work/life balance. When all these effects are taken into account, over the course of a decade, each \$1 billion of investment in efficient and effective public transport systems can be expected to generate up to 31,000 full time equivalent jobs.⁵

An accelerated infrastructure spend must avoid any over-emphasis on the expansion of road networks which exacerbate our energy and oil dependence. Not only does this leave us vulnerable when oil prices rise again after this global downturn, but results in social exclusion for low income households on the fringes of our cities who are dependant on vehicles to access employment centres. While maintenance of the road network is appropriate, new development should prioritise public transport.

There should also be incentives and encouragement for mechanisms that facilitate more sustainable outcomes in the actual design, construction and operation of infrastructure itself.

3. Green jobs policies – a smart choice for the lucky country

Australia has strong natural advantages and great opportunities for growth in green industries. To develop a lead in these industries, government needs to create the right mix of policies to

⁵ Based on information provided to ACTU by Dr. Peter Brain

generate both technology push and market pull. Well-designed environmental policy can drive domestic demand for environmentally beneficial goods and services, while the right mix of R&D, investment, procurement and skills and training policies can support growing businesses in those sectors. Together, such policies can position Australia to succeed in global markets.

To move to a low polluting economy that promotes green jobs, Australia needs a strong 2020 target to reduce emissions. The Intergovernmental Panel on Climate Change has concluded that holding global temperatures to 2 - 2.4°C would require developed countries as a group to reduce emissions by 25 - 40 per cent below 1990 levels by 2020 and for global emissions to peak by 2015. By setting the pollution cap for the CPRS at a level that is consistent with stabilising CO₂-e concentrations below 450ppm and committing to reducing pollution further with the agreement of other developed nations, Australia will not only be playing a global leadership role but also creating the markets that will allow our green industries to thrive.

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