



THE HON GREG COMBET AM MP

MINISTER FOR CLIMATE CHANGE AND ENERGY EFFICIENCY

TACKLING CLIMATE CHANGE IS IN THE NATIONAL INTEREST

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CHECK AGAINST DELIVERY

Today I will explain the steps the Government is taking to tackle climate change by putting a price on carbon pollution.

The foundation of any such policy is the climate science.

The evidence of atmospheric warming is very strong, and the potential for dangerous climate impacts is high. The scientific advice is that carbon pollution is the cause.

Globally, 2010 was the warmest year on record, with 2001 to 2010 the warmest decade. 2010 is the 34th consecutive year with global temperatures above the 20th-century average.

In Australia, each decade since the 1940s has been warmer than the preceding decade. With rising temperatures we can expect to see more extreme weather events, including more frequent and intense droughts, floods and bushfires.

The environmental consequences translate readily into economic costs - as well as potential negative impacts on water security, coastal development, infrastructure, agriculture, and health.

The scientists putting these issues to our Government and others are from institutions such as CSIRO, the Australian Bureau of Meteorology, the Australian Academy of Sciences, NASA and Academies of Science from around the world.

Professor Will Steffen, a leading expert in the climate science, has advised the Multi-Party Committee on Climate Change that there is 100 per cent certainty that the earth is warming, and that there is a very high level of certainty it will continue to warm unless efforts are made to reduce the levels of carbon pollution being sent into the atmosphere.

No Government acting in the national interest can ignore such advice.

As a Government we have a public policy responsibility to take action to reduce pollution, and to play a responsible role in the international efforts to tackle climate change.

It is in our national interest to take action on climate change. The national interest case is clear.

The risks of inaction on climate change to Australia – to our economy, to our environment, and to our way of life –are too big to ignore. The key is economic reform - climate change is an environmental problem with an economic solution.

What is required is an economic transformation that decouples growth in pollution from growth in our economy.

The longer we wait to begin the transformation, the harder and more expensive the change will be.

Just as the 1980s reforms laid down the bedrock of our current prosperity, pricing carbon will ensure that the Australian economy of the 21st century remains globally competitive.

Critical to understanding the national interest case for taking action on climate change is an acknowledgement that long term reform should also be based on the principle of intergenerational equity.

Intergenerational equity is a key determinant of long-term economic policy making.

Our obligation is to leave the world a better place, not to pass on the problems we found too difficult to deal with to our grandchildren and to their grandchildren.

That obligation must in part be met through pricing carbon in such a way that a clean energy future delivers a clean environment and sustainable prosperity.

There are six key arguments that summarise our response to the climate change challenge.

Firstly, Australia is one of the world's top 20 polluters and we release more pollution per person than any other country in the developed world – more than the US. Not only is it in our national interest to act, we have a responsibility to do so.

Secondly, to tackle climate change we need to cut our pollution levels – something that many other countries are also doing.

Thirdly, it is important to adopt the most economically efficient way of cutting pollution, and that means a market mechanism to set a carbon price. The carbon price will create the incentive to cut pollution and drive investment into cleaner energy like natural gas, solar and wind power.

Fourthly, the carbon price will work by putting a price tag on every tonne of pollution that is produced. Less than 1,000 companies that are the largest polluters in our economy will be required to purchase a permit for every tonne of pollution they emit - the price of the permit is the carbon price.

Fifthly, households will receive generous assistance to meet costs that may be passed on by the large polluters – pensioners and low and middle income households will be a priority.

Finally, demand for clean energy will grow because it will become cheaper relative to the current cost of burning coal for electricity. A carbon price will provide greater certainty for investors to commit investments in clean energy.

Of course there is a lot more to the debate, but these six propositions provide a useful summary for discussion of many of the issues. I will therefore expand upon each of them in turn.

Firstly, to the emissions intensity of our own economy, and our levels of pollution.

As I indicated earlier, Australia is one of the world's top 20 emitters in absolute terms and we emit more carbon pollution per capita than any other developed country in the world – higher even than the United States. What's more, our pollution levels are continuing to rise.

We have industrialised with the benefit of relatively cheap but pollution intensive energy sources. 80 per cent of our electricity is provided by coal-fired generation, we rely upon a transport system heavily dependent on fossil fuels, and have had insufficient regard for opportunities in the past to be energy efficient, or for example to reduce emissions in our agricultural sector or to sequester carbon in our landscape.

To tackle climate change effectively these features of our economy will need to change over time. Innovation, and low emissions and cleaner energy technologies will provide a pathway for future economic prosperity internationally.

As a small, open economy, we cannot afford the complacency inherent in the argument that we don't seriously need to tackle this issue - that 'she'll be right mate'. Such complacency will erode our long-term competitiveness by making us less able to compete in a carbon-constrained world.

That complacent attitude generally rests upon the myth that no other country is taking action on climate change.

It is true to say that the process under the United Nations Framework Convention on Climate Change, or the UNFCCC, can be painfully slow, overly bureaucratic and plagued by an out-dated paradigm that pits developed and developing countries against each other.

But it's the same process that has seen all major economies submit important pledges to reduce their pollution, or in the case of many developing countries, reduce their emissions intensity expressed as a unit of GDP.

These pledges already account for over 80 per cent of the world's carbon pollution. This was an important achievement of the Copenhagen and Cancun conferences that merits acknowledgement.

Whereas there has been a principal focus on the capacity to achieve a globally binding agreement to implement these pledges in much of the public debate, the practical reality is that many countries are taking action to reduce their emissions and their emissions intensity in line with the pledges they have made and in the absence of a global agreement.

The verification and measurement of the action that is being taken is therefore pivotal to building confidence. Just as Australia is looking to verify what others are doing to build confidence in our own policy settings, others are looking to Australia to build their own confidence. The current debate over carbon pricing is being closely monitored for this reason.

The Department of Climate Change and Energy Efficiency has published extensive information about the measures being taken internationally, and it is regularly updated. The Government has also commissioned the Productivity Commission to identify where possible the climate change policies and effective carbon price that operates in key parts of the economies with which we trade.

Notwithstanding the complexity of the task, the overall message from all of the information that is available is that Australia is not acting alone.

Globally more money is now invested in new renewable power capacity than in new fossil fuel capacity.

China – the world’s largest emitter - is now the world’s largest manufacturer of both solar panels and wind turbines and is definitely reducing the carbon intensity of its economy. Only yesterday further information confirming China’s plans for emissions trading in 6 regions was reported.

Despite a hostile Congress and a major economic downturn, the United States is also taking action at a national level, as well as at a State level.

The US is progressively introducing regulations covering carbon pollution from large industrial facilities under its Clean Air Act.

The first facilities were regulated in January 2011, and from July 2011, all facilities emitting in excess of 100,000 tonnes of carbon pollution per year will be required to obtain operating permits.

President Obama has also announced a new Clean Energy Standard, which will double the share of clean energy sources in the electricity supply mix to 80 per cent by 2035.

California – the world’s eighth largest economy, and with a population almost twice that of Australia – has legislated to commence emissions trading on 1 January 2012.

India has just commenced an energy efficiency certificate trading scheme that covers facilities that account for more than 50 per cent of the fossil fuel used there – it will help reduce carbon pollution by 25 million tonnes per year by 2014-15. It also has a coal tax levied on both imported coal and coal produced in India, which will raise around half a billion dollars for investments in clean energy technologies in the 12 months since it commenced in July 2010.

South Korea has had a trial emissions trading scheme in place since January last year involving 14 cities and provinces, including Seoul. Legislation to commence economy-wide mandatory emissions trading from 2015 will soon be introduced into its Parliament.

Emissions trading operates across Europe, including in a number of countries in conjunction with a carbon tax.

These are just a few of the many examples of what other countries are doing to reduce their carbon pollution.

This brings me to my third point: that a carbon price will cut pollution and drive investment into cleaner energy like natural gas, solar and wind power.

Under our carbon price for the first time over a sustained period, Australia's net carbon pollution will go down, not up.

Our carbon price will mean our economy will grow and pollution will not.

Some of the types of changes a carbon price can deliver are:

- promoting more low emissions gas-fired or renewable electricity generation instead of high emissions coal-fired electricity generation;
- encouraging chemical plants to install scrubbers to reduce nitrous oxide emissions;
- converting coal-fired boilers to gas-fired boilers in manufacturing plants, commercial buildings and hospitals;
- increasing the use of blended cements, which substitute other materials for high pollution clinker;
- making energy-efficient buildings more attractive to tenants; and
- providing an incentive for households and businesses to use energy more wisely.

The fact is that with current, known technologies we can make huge strides towards a low pollution future. And by putting the right incentives in place, we can unleash further innovation, create new jobs and encourage economic investment.

Furthermore we can cut our pollution while maintaining an economy that grows strongly, expands job opportunities and continues to deliver long-term growth in productivity and real wages.

The carbon price will work by putting a price on every tonne of pollution that is produced - it will be paid by less than 1,000 companies that are the largest polluters in our economy.

In fact a relatively small number of companies produce the largest amount of pollution.

The latest National Greenhouse and Energy Reporting data shows that the 50 largest polluters account for over 50 per cent of Australia's carbon pollution.

When you exclude sectors that will not be covered by the carbon price, the 50 largest polluters will be responsible for around two thirds of carbon liabilities.

A carbon price will mean that our largest polluters will have to take the cost of pollution into account when they are making their investment and business decisions. This creates the incentive to reduce the cost by reducing pollution, and leaves it in the hands of the decision-makers in the marketplace to find the most cost-effective way of achieving that outcome.

Investment decisions in the energy sector are perhaps most affected as the relative prices of energy sources will change as the cost of pollution is factored in.

Demand for cleaner energy like natural gas, solar and wind can be expected to grow because it will become cheaper relative to the current cost of burning coal.

Much debate, however, understandably centres on the impact of the carbon price in the trade exposed parts of the economy and the potential for carbon leakage through the loss of production and jobs to overseas competitors.

Carbon leakage is an environmental as well as economic argument. If the imposition of a carbon price led to production being moved offshore to a country without a comparable carbon constraint, we could end up with a worse environmental outcome as well as the loss of Australian jobs.

That is why a large amount of effort was expended by both industry stakeholders and the Government in developing a framework for providing assistance to such industries under the former Carbon Pollution Reduction Scheme (CPRS). We are using this basic framework as the basis for our current consultation with business.

The Government is committed to providing transitional assistance to our emissions-intensive, trade-exposed industries to avoid carbon leakage, and to provide for a long-term transitional adjustment for these industries.

The CPRS framework did provide very substantial transitional assistance that is best demonstrated with some practical examples.

One of the expert advisors to the Multi-Party Committee, Professor Ross Garnaut, recently posited in one of his papers a carbon price in the range of \$20-\$30 per tonne of pollution. Taking the lower range of Professor Garnaut's suggested prices as an example, that is \$20, let me explain what that would mean for some of our industries.

At \$20 in the steel industry, the average carbon price after 94.5 per cent assistance for the core pollution intensive activity would be around \$2.60 per tonne of steel, out of a price per tonne of steel of around \$800.

In the aluminium industry, the average carbon price after assistance for the core pollution intensive activity would be around \$18.70 per tonne of aluminium, out of a price of around \$2,500 per tonne of aluminium.

In other words, the carbon cost relating to the core pollution activity for steel would be one third of one per cent of the value of a tonne of steel and three quarters of one per cent of the value of a tonne of aluminium.

Steel and aluminium makers would immediately say that that is not the only carbon cost they will face - and that is true. I am referring to the carbon cost in their core

activity, but the fact is that this is the largest component of their respective carbon costs.

I also do not underestimate the competitive pressures faced by emissions-intensive trade-exposed industries - particularly steelmaking - driven by the high dollar, high commodity prices and the fallout from the global financial crisis in particular markets.

But let me be clear, the carbon price is not driving these pressures.

I should also make the point that by providing this assistance the Government does not reduce the signal for these industries to reduce their carbon pollution. If the assistance is in the form of free permits, these permits are an asset. These businesses have an opportunity to reduce their carbon emissions and sell surplus permits. If they cannot there is a very substantial level of shielding against carbon leakage.

The Government will continue to work with the business community, especially on the important issues facing the emissions intensive, trade exposed sector, the coal industry, and the energy sector.

It will be important, however, that there is perspective and facts in that debate, and a recognition that the Government must act in the national interest, not sectional interests.

As is our responsibility, we will take stakeholder concerns and interests into account, we will design a carbon price mechanism with a view to sensible long-term

economic reform, but we are also firmly of the view that pricing carbon is in our national interest.

The most pressing point, however, in the current public debate is undoubtedly the price impacts that may be faced by households.

The Government has already committed that every cent raised from the carbon price will be used to assist households; support jobs in the most affected industries; and to encourage the transition to a clean energy future.

The Prime Minister has made it clear that we will put households first.

There will be generous assistance for households to meet costs that may be passed on by the companies that are paying for their pollution.

Assistance for pensioners and low and middle income households will be a priority.

I can assure you that under our carbon price:

- More than 50 per cent of the carbon price revenue will be used to assist households;
- Millions of households will be better off under the carbon price; and
- The assistance will be permanent.

Providing this assistance will not remove the incentive for households to become more energy efficient.

Improving energy efficiency, for example, will reduce the price impact that a household may experience, and enable it to keep all or some of the additional cash assistance that the Government provides.

But in the overall scheme, the main behavioural change than a carbon price targets is at the industrial level - the organisations that emit large amounts of pollution.

The detailed design of the carbon price mechanism that the Prime Minister announced in February is well underway.

The Multi-Party Committee that includes Senators Brown and Milne and Mr Windsor and Mr Oakeshott continues to meet and consider key design elements.

Professor Garnaut has completed and published the eight papers that update his 2008 climate change report.

Treasury modelling has been commissioned but still has some time before completion, likely to be mid-year. The Productivity Commission work that examines the effective carbon prices in the economies of our trading partners is due in late May.

The Climate Commission is conducting community fora and other engagement activities explaining the climate science and carbon pricing.

And the Government is engaged with business stakeholders over the design of the transitional assistance for the emissions intensive, trade exposed sector of the economy as well as the treatment of the energy sector.

There is constructive engagement as well with representatives of unions, environment groups and other non-government organisations.

For the carbon price to take effect from 1 July next year, as Minister I am aiming to finalise the detailed design in time to introduce the legislation into the Parliament in the third quarter of this year.

It is complex and detailed policy work, quite aside from the complexities of the politics.

On the politics, in any process of reform it is legitimate that there is robust debate.

However, when opposition to reform is based solely on political opportunism and self interest, and fuelled by fear and misinformation, it must be met and defeated.

Tony Abbott is presenting himself more as a mobile scare campaign than an alternate leader of our nation.

Tony Abbott's only interest is his own political interest. Let's not forget that only 18 months ago he used climate change as the means to usurp Malcolm Turnbull's leadership of the Liberal Party.

Having wrecked action on climate change then, he is trying to do so again. He has had multiple positions on the climate science and carbon pricing - the only common theme being his political self-interest.

In a reform like this you have to play the long game.

Over time Mr Abbott will be exposed for the multiple positions that he has taken on climate change.

He will be exposed for his misrepresentation and misinformation in claiming that consumers will bear all costs and never mentioning the Government's commitment to provide assistance.

He will be exposed for falsely spreading fear about job losses.

He will be exposed by his commitment to repeal the carbon price legislation - a promise that means he will have to abolish the assistance that is provided to households - potentially cutting pensions and increasing taxes.

He will be exposed for having a policy on climate change that involves taking from taxpayers and paying polluters - a policy that will achieve nothing for the environment and result in a \$30 billion budget black hole costing the average family \$720 a year in extra taxes.

And he will be exposed by the fact that his opposition to this vital market-based economic reform is not rooted in any tradition of his own party.

Leading Liberals such as John Howard, Peter Costello, Malcolm Turnbull, Joe Hockey and John Hewson to name a few are all on the record as supporting the market-based reform that the Government is trying to make.

Indeed, in conclusion, it is worth remembering what Prime Minister Howard said in 2007 when he launched his policy for an emissions trading scheme:

“Australia brings formidable assets to this challenge: an educated, can-do and adaptable people; a modern, flexible economy; world class scientific expertise; deep global engagement and an enviable reputation for institution-building and reform. We have mobilised these assets before and will do so again to help build a new global climate change framework and to facilitate Australia's transition to lower carbon emissions. No great challenge has ever yielded to fear or guilt. Nor will this one. Human ingenuity, directed towards clean technology and wise institutional design, remain our best weapon.”

I could not agree more.