

Senator the Hon Penny Wong

Minister for Climate Change and Water

Speech to the Australian Industry Group Luncheon

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Climate Change: A Responsibility Agenda

Check against delivery

Introduction

I would like to acknowledge the traditional owners of the land on which we meet, the Djerriwarrh people.

And I would like to thank Heather (Ridout) and Don (Matthews) for their warm introductions.

It is a great pleasure to be here with you today, giving my first major address on climate change since being appointed a couple of months ago.

It is not a coincidence that this first address is with the Ai Group. Heather has been an outstanding advocate for industry. More broadly, my being here reflects how important the Rudd Government believes industry is to the climate change solution, and how much we want a close dialogue with you about navigating the very challenging road ahead.

Climate change: taking responsibility

I want to begin by taking stock of where we are. Over many years, scientists have gathered a body of evidence which makes the case that climate change is real and is being caused by human activity.

For some time now, that evidence has been irrefutable. For some time now, people in Australia and around the world have been calling for action – and in their everyday lives, taking action themselves. Businesses have been looking at the looming threat of climate change – and at the new opportunities it presents – and also taking action for themselves. I acknowledge and encourage these existing industry efforts at climate change mitigation.

So over the past decade, business and the community have been leading – while our national elected leaders abdicated their responsibility.

Now it's up to us. Future generations will look back on us all and ask what we did.

With the prospect of sea levels encroaching upon our mostly coastal population, they will ask why it took so long to act.

Seeing our river systems die before our very eyes, they will ask how this was allowed to happen.

With our knowledge that climate change puts our food and water supplies at risk, they will hold us accountable.

Two months ago, Australians delivered a clear message. They said we need a new sense of responsibility in this country: a responsibility to protect not only today's economy but also prepare for the economy of the future; responsibility for protecting our country, our values and lifestyles beyond the next electoral cycle.

And they said we must face up to our circumstances. The message from the world's scientists is that for too long, we have failed to give a value to our climate. We have failed to put a price on pollution. We have overloaded the earth's atmosphere with greenhouse gases with no accountability for what happens next.

The results of this behaviour have inspired one of the most enduring human values: taking responsibility.

The world now sees that we must also be responsible in how we use the earth's resources. The earth's gifts - that we have always taken for granted - are not guaranteed.

This is a trend that will only gather momentum. We see it everywhere – the hybrid cars, the solar panels, the rainwater tanks. We see businesses striving to be more energy efficient. This is not just a new marketing phenomenon. It is people taking responsibility for their impact on the climate.

This imperative will drive community decisions in the years ahead. Firms that reflect this sense of responsibility will find their fortunes prosper. Politicians who shirk this responsibility won't be around for long.

The Australian people have got it right. They know our economy and environment are highly susceptible to climate impacts. The Great Barrier Reef is sensitive to sea temperature rise. Our wildlife rely on very particular conditions. Our agricultural industries need reliable rainfall. Our lifestyle and wellbeing are climate dependent. Many of our settlements and much of infrastructure lie close to the coast, and confront particular challenges regarding sea level rise, storm surge and coastal erosion.

The signs that the Australian climate is changing due to human influences are now apparent. Last month, the Bureau of Meteorology reported that 2007 was the sixth warmest on record, and that 16 of the last 18 years have been warmer than the long term average in Australia. Looking to the future, CSIRO projects that temperatures will rise another 1 to 5 degrees by 2070. In those circumstances, Australia's most populated regions face a permanent shortage of water.

Across the world, we see deserts spreading, and ice caps shrinking. While some parts of the world dry up, others face serious flooding. Storms will become more severe and whole nations may disappear under rising seas.

So it is no embellishment to say that climate change is the challenge of our generation. But it is also the opportunity of our generation.

It's fair to say that most of the talk about the economic impact of climate change has been of the potential threat. Yet we should also look to the opportunity – for new growth; for innovation; for a modern economy. Australia is blessed with resources to exploit developments in clean energy, and we have the scientists, engineers and capacity to deliver.

Opportunity or threat, this is a challenge we need to solve together. We must look to each other, and we must ask of ourselves whether we have done enough.

This applies equally to government. Responsible leadership means all of us need to have a seat at the table, all of us need to have confidence in our course. People will need to understand the changes going on around them – both in terms of the climate, and the policies we implement.

Laying the foundations

Today, I want to announce the Rudd Government's approach to taking responsibility by tackling climate change.

Our climate change policy is built on three pillars: reducing Australia's greenhouse gas emissions; adapting to climate change that we can't avoid; and helping to shape a global solution.

The first pillar – reducing Australia's greenhouse gas reductions – is marked by our existing commitment to a target of reducing emissions by 60 per cent of 2000 levels by 2050. The Government is also committed to setting a medium term target.

In developing its strategy to achieve deep reductions in emissions, the Government will be ever mindful of the economic challenges we face. While the fundamentals of Australia's economy remain strong, we face inflation at higher rates than we would like and an uncertain global economic outlook. These are times which require careful and prudent economic management, a fact which is front of mind in all the Government's decision-making.

We will deliver measures to reduce emissions at least cost, and with greatest potential to drive new growth, create jobs and develop new industries. That's why at the heart of our efforts to reduce emissions will be a system of emissions trading. I will return to this in a moment.

The second pillar is adapting to climate change that we cannot avoid. Climate change resulting from human influences is already underway, so we must prepare ourselves for the inevitable changes already built into the climate system. This will involve far reaching impacts on our economy, human amenity and our environment.

The third pillar of the Government's approach to climate change is helping to shape a global solution to this global problem.

This is why the first act of the Rudd Government was to ratify the Kyoto Protocol. Ratifying Kyoto put Australia back on the map. It sent a clear message that Australia is no longer part of the problem on climate change. We are now part of the solution. This has meant that for the first time we are a full negotiating partner in all key international forums. We are committed to working towards a post-2012 agreement for addressing climate change that is equitable and effective, and that includes agreement on a long-term global goal for emissions reductions. This will be a hard and long road; my experiences in Bali and Hawaii have made that clear. Any post-2012 approach needs to secure widespread agreement of countries with diverse interests and entrenched positions. Nevertheless, we are committed to working through these multilateral negotiations toward an effective global agreement.

In working toward that agreement, we understand that the developed world has to lead. Our policies to make substantial cuts to domestic emissions underline that leadership. But simultaneously, we need to adapt to deal with the climate change that is already happening. Only if we bring these three priorities together will we move forward.

Reducing greenhouse emissions

Today I want to focus on the first pillar of our climate change policy: reducing greenhouse emissions.

The best way to drive reductions is to use market based mechanisms. It is not enough to simply set targets to reduce emissions, and hope for the best. Nor should we be just imposing action on those industries and companies that are carbon intensive.

In putting emissions trading at the heart of our efforts to reduce greenhouse, we will place a limit – or a “cap” – on the emissions we will allow to be produced. Permits would then be issued up to the level of the cap and each year firms would surrender to the Government a number of permits equal to their emissions. This will produce a market for permits, which will be actively traded and will attract a price. It is this price – “the cost of carbon” – that will change the way that decisions are made throughout the economy. Companies that can easily reduce emissions will do so to avoid this cost, thereby freeing up permits for those companies who have fewer opportunities to reduce their emissions.

This approach forces us to account for our greenhouse emissions. It means we are responsible for what we put into the atmosphere. Obviously, this imposes a cost – but it is a necessary one. Australians recognise that tackling climate change will not be painless. But Australians also understand that doing nothing certainly won’t save us any money: the cost of inaction is greater than the cost of action.

The significance of emissions trading should not be underestimated. Achieving our goal of delivering deep cuts in emissions by the middle of the century means significant transformation in the way our communities and economy function.

A system to enable the trading of emissions will help promote private sector innovation and it will help address the market failure that has contributed so profoundly to climate change.

The introduction of emissions trading will constitute the most significant economic and structural reform undertaken in Australia since the trade liberalisation of the 1980s. It will create a major new financial market aimed at achieving an environmental obligation. It will spur progress in production techniques, capital investment, research and development. And it will result in challenges for some industries while creating significant opportunities for existing and new industries.

Reform like this will not be simple, but it is the responsible course to take.

Design principles for emissions trading

I would like to indicate today a number of initial design principles that will guide development of emissions trading over the next year or so.

First, it will be a ‘cap and trade’ scheme. That is, it will set an overall environmental cap by issuing a set number of permits, and allow entities to trade permits, thereby putting a price on carbon. There are several reasons for this approach – one of the most important being international consistency. The European Union has already implemented the world’s largest cap and trade scheme. Closer to home, New Zealand’s cap and trade scheme will commence this year. A number of cap and trade proposals are being developed and debated in the United States. The cap and trade model has widespread support in Australia. It will form the platform for other design considerations.

Second, the caps – that is, the quantitative limits on emissions that define its effectiveness and environmental contribution – will be designed to place Australia on a low emission path in a way that best manages the economic impacts of transition, while assuring our ongoing economic prosperity.

Third, the scheme will have maximal coverage of greenhouse gases and sectors, to the extent that this is practical. The broader the scheme’s coverage, the more cost-effectively it will reduce greenhouse gas emissions, and the more fairly it spreads the burden of such reductions across the community. There is wide agreement that over 70 per cent of our national emissions can be practically covered by emissions trading and we will proceed towards scheme design on this basis. We will consult with the agriculture and forestry sectors on the question of their inclusion in the system and on the timeframe for that inclusion.

Fourth, the system will be designed to enable international linkages, while ensuring it suits Australian economic conditions. The ratification of the Kyoto Protocol opens the door to a range of carbon trading opportunities for Australian businesses, and links us to the multi-billion dollar trading market that already exists internationally. Emissions trading gives us much greater capacity to add momentum to the global carbon market. The design parameters need to balance the desirability of international linking to form an emerging global market with the need to meet Australian objectives, particularly in the early stages of implementation.

Fifth, the design will address the competitive challenges facing emission-intensive trade-exposed industries in Australia. The introduction of a carbon price ahead of effective international action can lead to perverse incentives for such industries to relocate or source production offshore. There is no point in imposing a carbon price domestically which results in emissions and production transferring internationally for no environmental gain. Therefore, we need to assess carefully the impact of the scheme on industries for which this might pose a real risk. In addressing competitiveness concerns during this phase, attention will also need to be paid to ensuring that incentives remain for these industries to adjust their emissions profiles consistent with an emerging global carbon constraint.

The Government recognises that not only emissions-intensive trade-exposed industries would be affected by a carbon price. The scheme will also address the impact on strongly affected industries.

Finally, measures will be developed to assist households – particularly low income households – to adjust to the impact of carbon prices.

Of course, it stands to reason that in doing this, we will be looking to facilitate changes in the behaviour of firms and households.

The Government's approach to design

This is a highly complex piece of policy development, with important implications for our economy and society. Therefore, the Government will take a careful and deliberate approach to finalising the scheme design, drawing on many sources of advice to achieve the best quality policy outcomes and minimising implementation risks.

Throughout this process, I will be consulting closely with State and Territory Governments, including through the COAG Working Group on Climate Change and Water.

An important input to the Government's thinking on a range of climate change policy issues will be the independent review being undertaken by Professor Ross Garnaut. When he was still Leader of the Opposition, Kevin Rudd, along with State and Territory Governments, commissioned Professor Garnaut to examine the impacts of climate change on the Australian economy. He will recommend medium to long-term policies to improve the prospects for sustainable prosperity.

We are very fortunate to have Professor Garnaut conducting this review. He is one of Australia's most esteemed economists. He has already been making strong contributions to the debate. We want his work to be unencumbered by the pressures of politics, just as he understands the Government will, in the end, come to its own judgment about the right policy.

The Australian Treasury will also make an important contribution to emissions trading design. In particular, it has a team modelling the effects of different emission reduction trajectories on growth, employment, income and prices across the economy. This modelling will also inform the Government's decision making.

The Government will also take into account the work undertaken by State and Territory Governments, through the National Emissions Trading Taskforce (NETT), and the report of the Task Group on Emissions Trading. I realise that many organisations have invested considerable time and effort in the consultation processes associated with those reports. I want to assure industry that the views they have already expressed will be taken into account when formulating our final policy positions.

More generally the Government will continue to consult widely throughout the design process. Our approach to consultation will be wide and inclusive, and will engage with industry, community and environmental non-government sectors. Indeed, I look forward to an ongoing contribution from the Ai Group.

This broad approach to consultation is critical: all sectors of the community will need to make a contribution to the challenge of reducing greenhouse gas emissions. Through our careful modelling, methodical policy design and extensive consultation, the Government is determined to get this right.

Timeframe

As I've said, the Government has made a commitment that the emissions trading scheme will commence in 2010 and that the design of this scheme must be finalised at the end of this year.

The Garnaut Review is scheduled to report to governments in September 2008, and will be a key contribution to the Government's consideration of interim targets for Australia's emissions trajectory. The Government intends to move quickly to provide signals to investors and the community on this important issue. By the end of this year, the Government will announce a firm indication of the planned medium term emissions trajectory for the scheme.

The Government will also move to develop an exposure draft on emissions trading legislation by the end of the year. This will enable passage of legislation in 2009, so as to facilitate commencement of the scheme in 2010.

Complementary policies for emissions reduction

As I have indicated, emissions trading is at the heart of our efforts to reduce emissions. It is not, however, a magic bullet. It will need to be complemented if we are to achieve our reduction goals at an acceptable cost. That is why the Government has committed to a range of other measures to address market failures in the area of energy efficiency and boost the take-up of low emissions technologies. If designed and implemented correctly, these measures will ultimately push down the costs of emission reductions.

We are getting on with the job of implementing them. Under a working group established through the Council of Australian Governments, we are working co-operatively with the states and territories to implement our national 20 per cent Renewable Energy Target. The design work will be finalised by September. Legislation will be introduced early next year.

The Government's Clean Energy Plan will promote the development of renewable energy technologies and clean coal. And we have a range of commitments to assist families, schools and communities to take up the challenge of reducing their greenhouse gas emissions.

In addition, the government will lead the way on emissions reductions. In May last year, we announced a number of specific actions that we would take in office to reduce our own emissions. This included a requirement for energy and water audits for all agencies with more than 100 staff, and setting a target to power Parliament House and all MP electorate offices with renewable and clean energy.

Conclusion

This type of government leadership is what Australians now demand. It is the new sense of responsibility – a sense that characterises this Government’s approach to tackling climate change. There is no single button we can press. We need a coherent approach, that reduces greenhouse emissions, that deals with the climate change that is already happening, and that seeks a global solution. This challenge is going to require the efforts of all of us. It is the way we build a modern Australia to meet the challenges of the future.

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