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Opportunities For Australian Business In A Carbon-Constrained World

Check against delivery

Introduction

Acknowledgements

- Mr Robert Henderson (Chairman ABE)
- Committee members

Thank you for the invitation to speak to you today.

Last week saw a significant step forward in the climate change and economic reform agenda, with the launch of the Government's Green Paper on the Carbon Pollution Reduction Scheme.

As I said at the launch, Australia has a great deal to lose from climate change and we must act now to protect our prosperity and our way of life.

The Carbon Pollution Reduction Scheme is central to the Rudd Government's economic reform agenda.

We are creating a new market that for the first time puts a cost on carbon pollution.

As one of the hottest and driest continents on earth, Australia's economy and environment will be one of the hardest and fastest hit by climate change if we don't act now.

As members of Australia's financial community, you understand – perhaps better than any other sector – the significant opportunities that arise from creating a robust new carbon market.

I say 'robust' here deliberately.

If we falter in designing a robust market, we will compromise the opportunities that flow from it.

Without a clear constraint on carbon pollution that provides the market with certainty into the future, emissions trading would not deliver the reductions in carbon pollution needed to address climate change; nor would it provide the lowest cost adjustment that a market mechanism delivers.

And without broad coverage, we would place an unfair burden of emissions reductions on a narrower share of the economy.

Market distortions like this would see our capacity to transition to a low carbon future at lowest cost compromised.

Australia's Carbon Pollution Reduction Scheme

As I said last week, it is time to rein in the carbon pollution we have been pouring into the atmosphere. This is something we must do at the lowest overall cost to our economy.

The Rudd Government's Carbon Pollution Reduction Scheme will reform and transform the Australian economy.

In its ability to change the economy over time, the Carbon Pollution Reduction Scheme is likely to be on par with past economic reforms such as trade liberalisation, opening up the economy, and floating the dollar.

Those tough economic reforms of the 1980s and 1990s — that many of you here today will remember well — mean that Australia now has a resilient and flexible economy which is well placed to undertake this new reform.

It is a fundamental economic reform that will unleash incentives for research and innovation, and decisions by consumers and investors that will help deliver a more carbon-efficient economy.

Globally, countries that have begun early the transition to a low carbon economy will develop the innovative businesses and specialised expertise to help other economies with their transition.

This will deliver substantial investment in clean technologies that enable us to maintain and improve living standards while reducing our impact on the climate.

As I have already highlighted, if we are going to truly tackle climate change, we will need to harness the full power of market forces.

That is why we are pursuing a market-based, whole-of-economy reform.

The effect of putting a price on carbon will be profound. It will affect relative prices, so that those goods and services which are carbon intensive cost relatively more over time than those that are low carbon.

In a robust carbon market, companies and industries that produce goods and services in a way that contributes less carbon pollution will be rewarded.

The scale of the challenge

Australia has a target of a 60 per cent reduction in emissions by 2050.

The trajectory we choose to reach that mid-century target will underpin the new carbon market, and we have an extensive process underway within the Treasury and through the work of Professor Garnaut to model to impacts of various emissions reduction pathways.

We will set the medium term target range after completing this modelling and after consultation with the Australian community.

We already know that to meet the 60 per cent reduction target, carbon emissions per dollar of real GDP will need to decline much faster than any improvements we have seen in recent decades.

At its core, our climate change economic reform agenda is about reducing our carbon intensity while maintaining strong economic growth – what has been referred to as improving our ‘carbon productivity’.

How do we achieve that carbon productivity improvement?

To borrow from Nicholas Stern, first we must deploy existing low carbon technologies. Harnessing the potential of existing low-carbon technologies is an urgent first step.

Second, we must develop and scale-up technology that is near commercialisation. Low-carbon technologies like carbon capture and storage and innovative solar technologies that still fall short of commercial viability require cooperation between governments, investors and the private sector to accelerate development and deployment.

Third, we must find the big breakthrough technologies. In the longer term, the global cuts in carbon emissions will be achieved only through technology breakthroughs to provide zero emission electricity. That will require a major investment in research and development.

Fourth, high carbon productivity sectors will grow more rapidly than low carbon productivity sectors. Managing this structural change in a way that deals with legitimate community concerns is the tough job of economic reform that this Government is taking on.

A robust carbon market to drive investment in clean energy

These four imperatives — deployment of low carbon technology, commercialisation of proven technology, zero emissions technological breakthroughs, and changing the structure of the economy — all depend on long-term investment decisions.

And in turn, those long term investment decisions depend on a credible and effective limit on the amount of carbon we will allow to be emitted.

A credible trajectory and a credible emissions trading scheme are the economic settings that will drive investment in clean energy. That's because the transformation to a low-carbon economy will require substantial investments in long-lived assets.

Australia needs a scheme that will credibly reduce Australia's emissions, so that the market — the energy suppliers, the technology companies, the innovative businesses and the investors — will commit to the new energy assets we need to reduce our emissions.

To give you a sense of the scale of the challenge, the International Energy Agency has said that the additional investment in technology and deployment that the world needs between now and 2050 amounts to US\$45 trillion.

As you understand, investment is fundamentally driven by an expectation of future returns. We are asking businesses and investors to drive an economic transformation.

That is why it is so critical that the Carbon Pollution Reduction Scheme delivers the economic reform to provide entrepreneurs and investors with a certain economic environment for the life of those investments.

The finance sector also has an enormous role to play in channelling funds to the industries that will thrive in a carbon constrained world. The better financial markets and business understand the shape of what is to come, the more effective they will be in seizing the opportunities associated with the transition to a low carbon economy.

Consultation

Over the past six months, I have been engaged in ongoing consultation and discussion with business – including the finance sector – and the community.

In the business community, it is widely understood that this will be a tough economic reform, but also that there is a necessity for a market based transition to a low carbon future.

We know that many businesses would like assistance for their circumstances, and the Government will continue to engage closely with business as we finalise our approach.

But let me reiterate the challenge for the Government.

There is no menu of easy options when it comes to the challenge of climate change.

There will be many demands – including competing demands – from different sectors.

We will continue to actively consult with business and the community.

Ultimately, the Government must strike the right balance on the basis of economically responsible policy and the national interest.

There is strong consensus on the need to reduce pollution and introduce emissions trading, and on the need to make it as broad as possible to minimise the costs.

Excluding or assisting certain sectors means that a smaller pool of contributors must shoulder the burden.

The economics of carbon reduction have an inexorable logic. All decisions are linked. Under a national cap on emissions, giving relative priority to one sector or another inevitably involves a trade off.

We are engaging in a careful and methodical process, including undertaking one of the biggest economic modelling exercises in Australia's history, as well as ongoing extensive consultation, before finalising our decisions later in the year.

Guiding our approach is the unavoidable reality that the costs of inaction are greater than the costs of action. Moreover, the longer we delay, the greater the cost. This is why we intend to implement the Carbon Pollution Reduction Scheme in 2010.

The Government's directions

Coverage

As you know, we propose the Carbon Pollution Reduction Scheme will cover stationary energy, transport, fugitive emissions, industrial processes, waste and forestry sectors, and all six greenhouse gases counted under the Kyoto Protocol from the time the scheme begins.

We have proposed that the earliest that agriculture should enter the Scheme would be 2015, with a final decision to be made in 2013.

Commitments in support of businesses

While the carbon market will drive the bulk of Australia's emissions reductions, the Government will also implement worthwhile complementary measures.

The Government will establish the Climate Change Action Fund (CCAF) to help business transition to a low pollution economy, by providing in partnership funding for a range of activities, including:

- Capital investment in innovative new low emissions processes
- Industrial energy efficiency projects with long payback periods
- Dissemination of best and innovative practice among small to medium sized enterprises.

The risk of adverse effects on the investment environment will be ameliorated through limited direct assistance to existing coal-fired electricity generators. This is in addition to the Government's commitments to technological development, such as carbon capture and storage. The Government will deliver this assistance in part through a new mechanism called the Electricity Sector Adjustment Scheme.

Commitments to support emissions-intensive trade-exposed firms

Assistance will also be provided to the most heavily emissions-intensive trade-exposed activities.

Carbon leakage is counter to our objective. We propose to address this potential problem by providing transitional assistance in the form of a share of free permits to the most emissions intensive trade exposed activities.

We will assist those firms that have a sufficiently material impact on their cost structures as a result of a price on carbon. We propose to use a measure based on emissions intensity per unit of revenue — the most transparent and comparable indicator.

The Government's preferred position is to allocate up to around 30 per cent of carbon pollution permits to emissions intensive trade exposed activities, allowing for the potential future inclusion of the agricultural sector.

The Government also recognises that the rate of assistance to these industries will need to be gradually reduced over time. To do otherwise would be economically irresponsible — it would compromise Australia's efforts to reduce carbon pollution and place more of the burden on other parts of the economy.

Opportunities, promising technologies, green jobs

Australia has the resources to exploit in clean energy, the great companies to respond with new products and ways of doing business; and households who are acutely aware of the need to act on climate change and who are willing to do something about it.

The global response to climate change has been characterised by the development of new technologies, such carbon capture and storage, wind, wave, geothermal, solar and clean coal. Billions of dollars are being ploughed into research into a range of promising technologies.

The successful new technologies will create opportunities worth hundreds of billions of dollars.

Australian companies and workers must be in a position to seize the new opportunities in Australia and in global markets.

Putting a price on carbon will drive incentives to find innovative and creative new ways of reducing emissions. But we must first establish the scheme that puts a price on carbon.

Acting with the rest of the world

Our ratification of the Kyoto Protocol gives Australia access to the Protocol's Clean Development Mechanism and Joint Implementation mechanism. This provides Australian companies with enhanced access to international carbon markets. The World Bank estimated the nascent global carbon market to be worth about US\$64 billion in 2007 – twice as large as 2006.

With the commencement of the Carbon Pollution Reduction Scheme, Australia will join other developed nations in the fight to reduce carbon pollution. As I noted last Wednesday, emissions trading schemes are already operating in numerous countries, states and provinces. Several other countries, including the United States, are moving in the same direction.

These schemes are a critical part of global leadership on climate change. Leadership from the developed world encourages other countries to join the global effort.

In addition, the development of international carbon markets will help drive investment into the areas where the largest cuts in pollution can be achieved most quickly and at the lowest cost.

The Government will take account of the evolving state of international negotiations in determining the path we set to meet our target of reducing Australia's carbon pollution by 60 per cent below 2000 levels by 2050.

Conclusion

Climate change is not a distant and abstract problem, it is here and now.

The evidence shows that Australia's climate is particularly vulnerable.

Our test of responsibility lies in what we do today, because what we do today will determine whether we are prepared for tomorrow.

We need to move to the low pollution economy of the future in an economically responsible way.

The longer we delay action, the harder it will be and the more it will cost.

I said last Wednesday that this is a test of economic leadership that this Government is determined to pass.

The financial community will play a critically important role in Australia's successful transition to a low carbon economy, and our capacity to seize the global economic opportunities arising from that transition.

The global economy faces an economic transition comparable in scale to the industrial revolution of the 18th century and the information revolution of recent decades.

There is every reason for Australia to be a leader in the new markets and technologies needed to drive this transition.

The Carbon Pollution Reduction Scheme is a crucial step towards making it possible for Australia to realise our potential and begin to seize these opportunities.