



SENATOR THE HON PENNY WONG

Minister for Climate Change and Water

Climate change an opportunity for innovation and growth

The Age

8 February 2008

Australia has the scientists, engineers and capacity to deliver writes Penny Wong.

Over many years, scientists have gathered evidence that makes the case that climate change is real and that people are causing it.

For some time, this evidence has been irrefutable. 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 opportunities it presents - and also taking action for themselves.

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 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.

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

The first pillar – reducing Australia's greenhouse gas emissions - is marked by our existing commitment to a target of reducing emissions by 60% 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. 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 that require careful and prudent economic management, which is front of mind in all the Government's decision-making.

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

The best way to drive reductions is to use market based mechanisms. It is not enough simply to 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 permits for those companies who have fewer opportunities to reduce 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 will not save us any money: the cost of inaction is greater than the cost of action.

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.

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 start this year.

Several cap and trade proposals are being developed and debated in the US. The cap and trade model has widespread support in Australia.

It will form the platform for other design considerations. 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 more than 70% of our national emissions can be practically covered by emissions trading and we will proceed towards scheme design on this basis.

We will consult the agriculture and forestry sectors on the question of their inclusion in the system and the timing of this.

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 multibillion-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.

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 that results in emissions and production transferring internationally for no environmental gain.

An important input to the Government's thinking on climate change policy issues will be the review being undertaken by Professor Ross Garnaut. He will recommend medium to long-term policies to improve the prospects for sustainable prosperity.