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**Crawford School Forum: 'Australia in a climate changed world –
Moving forward to Cancún and beyond'**

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AUSTRALIA IN A CLIMATE CHANGED WORLD

It would be something of an understatement to describe climate change as a wicked problem. Rather, it is a volatile cocktail of wicked problems. This cocktail of scientific facts, political discontinuities, economic complexity, investment uncertainty, community confusion and policy barriers mixes at the national and international levels, combining in ways that are unpredictable and seemingly intractable.

The Government accepts the climate science. As Professor Will Steffen pointed out in his recent presentation to the Multi-Party Climate Change Committee, there is a 100 per cent certainty that the earth is warming. There

is a 95 per cent certainty that human emissions of greenhouse gases are the main cause of the warming observed over the last half-century at least.

The scientific basis and imperative for action to reduce carbon pollution is clear. Deep and substantial cuts in carbon pollution in the international economy by 2050 are required to limit temperature increase to below 2 degrees Celsius to avoid more dangerous climate change. Moreover, the later that the level of global carbon pollution peaks, the sharper will be the adjustment that is required to achieve a given temperature outcome.

Climate change demands decisive action in Australia and across the world.

At the centre of the Gillard Government's approach to climate change is economic reform.

The basic issue is this: without an economic transformation driven by a price on carbon, the national economy cannot decouple economic production from carbon pollution. Decoupling growth in production from growth in pollution is essential to maintain growth and national prosperity in a carbon constrained world.

Without a price on carbon, we will become less competitive internationally as other countries reduce their emissions intensity and invest in low carbon technology and processes.

That is why the Gillard Labor Government moved quickly to establish the Multi-Party Climate Change Committee, which is already working to deliver legislation that will establish a price on carbon.

We regard this as an economic imperative and a significant long term reform of the Australian economy. It will position us for long-term competitive economic success while reducing our dependence on carbon.

And while the case for domestic action has merits on its own, our domestic and international objectives are mutually supportive.

At the international level, we remain deeply engaged in efforts to secure a binding international agreement that will cut carbon pollution and mitigate the effects of climate change.

This morning, I propose to outline the Gillard Labor Government's approach to this year's UN Climate Change Conference which I will attend next week, situating our international negotiating strategy within the broad framework of the Government's integrated approach to climate change policy.

And I have chosen to speak here at the Australian National University's Crawford School because of your interdisciplinary emphasis on public policy, economics and environmental management – a “wicked” combination if ever there was one.

Current Realities

As Bismarck is famously alleged to have said, “*Die Politik ist die Kunst des Möglichen*” – politics is the art of the possible.

Our challenge is to build consensus in a hung Parliament, negotiating with the Independents and Green in the House of Representatives, and faced with an Opposition which is confrontationist, opportunist and obstructionist. It is an Opposition that is prepared to sacrifice the national interest for political advantage.

Fortunately, we are making progress to build the mechanism for a carbon price in the Multi Party Committee, and leading business and community representatives are providing input through the new Roundtables which have now begun meeting.

It should be remembered that, exactly a year ago, we were on the verge of a historic agreement between the Government and the Opposition on a major legislative and economic reform that would have seen a cap and trade emissions trading scheme enacted into law.

The Carbon Pollution Reduction Scheme was supported by the Opposition, whose leader Malcolm Turnbull could see that the legislation was not an expression of political whim on the part of the Labor Party, but a realisation of climate change action of fundamental national importance.

Under Tony Abbott's leadership, the Opposition has descended into a form of retail politics that undermines the national interest, that undermines

intergenerational equity, that undermines our capacity for economic reform and threatens our nation's long-term prosperity.

And, of course, we have the Greens whose five Senate votes were all that was needed to have passed the CPRS last year. As I have noted elsewhere, the fact that they joined with the Coalition on no less than three occasions to block the CPRS has received surprisingly little analysis.

The CPRS would have reduced carbon pollution by at least 144 Mt in the year 2020, and was capable of delivering deeper cuts in emissions carbon pollution if the conditions attaching to higher targets were satisfied.

The Greens now have another opportunity to prove themselves capable of playing a pragmatic and constructive hand to achieve fundamental environmental and economic reform.

Diplomacy and National Interests

Our pursuit of economic reform is designed to achieve key national interests, on which our climate change diplomacy is based. These national interests resonate with all Australians, and will be at the forefront of my efforts in Cancún.

First, a strong economy: this is front and centre of the Gillard Labor Government's policy agenda. Whether it is the mitigation of the effects of the Global Financial Crisis through a well-designed stimulus package, or the roll-out of the National Broadband Network as a major economic productivity reform, the Government has shown itself to be a strong economic manager.

As a nation, we enjoy levels of prosperity and quality of life that are the envy of the world. But we must recognise that, to a significant extent, our economic development has benefited from the ability to emit unconstrained carbon pollution. Cheap coal-fired electricity generation has delivered us a significant comparative advantage. However, we must address the constraints that are now necessary in the emission of carbon pollution. Fundamental economic reform is the key to change.

Second, we also have a responsibility not to leave a world of disadvantage to those who follow us. Intergenerational equity requires that the world we leave is the better for our having been here. Climate change questions our integrity in this regard, so it is imperative that we make the right investments now to ensure that their world is one that is distinguished by high levels of amenity and social capital.

Third, maintaining a habitable continent: at one level, this is an intergenerational equity issue. But, at another, it is about ensuring our own quality of life now, and protecting our priceless natural treasures. The inevitable consequences of global warming – including variability in rainfall distribution, more heat waves, rising sea levels, more severe weather events such as storms and cyclones – place immediate demands on us to become more adaptive and resilient.

In fields as diverse as trade, law of the sea, human rights, arms control and international development assistance, Australia's diplomacy has an enviable reputation for effort, eloquence and excellence. This stems in large measure from the fact that our diplomacy is grounded in a clear appreciation of what is in our national interest.

So, too, is our approach to international climate change negotiations based upon a clear articulation of our national interests - to shape national and international actions that maintain our prosperity, ensure intergenerational equity and maintain a habitable continent for current and future generations.

Some Economic Realities

These national interests must always be grounded in economic reality.

We all know a carbon price is coming into the Australian economy. The Government is working towards the introduction of a carbon price via a market mechanism. The Opposition wants an implicit hidden price through Mr Abbott's costly and ineffective 'direct action' policy.

But the intensity of the political contest has resulted in uncertainty. In this situation business can't make investment decisions with confidence. Business needs to know the form of the carbon price; otherwise, more risk is built into

investment calculations. A lack of a carbon price leads to investment in Australia being more expensive than it needs to be, with less investment and fewer jobs the inevitable consequence.

But a carbon price is not just something we need to impose to eliminate uncertainty. It will allow businesses and entrepreneurs to find new and valuable ways of limiting and eliminating carbon pollution.

It will prompt innovation in new business practices and products, and it will ensure we are not left behind in the new industries of the future.

The International Scene

I now want to turn to the international scene. The global nature of climate change warrants a multilateral response. Multilateral outcomes are potentially the most powerful — when an agreement is achieved it reflects the shared views and needs of the international community. Yet crafting a robust global consensus is seldom easy — multilateral negotiations are complex and require widespread agreement between countries with diverse interests.

It is fair to say that expectations regarding a timely conclusion to a new global climate change agreement, and the contribution that the Cancún conference can make towards this end, are not particularly high.

While many good things flowed from Copenhagen — and continue to flow — it did not achieve all that was hoped for. In view of the failure of our Senate to pass the CPRS legislation, the outcome of the mid-term elections in the US, and the continuing reverberations of the Global Financial Crisis in North America and Europe, the post-Copenhagen outlook is decidedly less buoyant and optimistic than it once was.

This is an inescapable fact, with inescapable consequences.

While they are few in number, the voices of the climate change deniers, the cap and trade opponents — not to mention the political opportunists — are more strident. And while the general public remains basically in agreement with the need to address climate change, it is more uncertain about how that should be done.

It is important that procrastination does not develop into pessimism. So our climate change negotiators have some work to do, and Cancún will have an important part to play in restoring international confidence and an appetite for global action.

It is important that the international climate change dialogue is re-energised, that it re-focuses on the problem that the world faces, and gets on with decisive and legally-binding action. The question is: how do we re-energise the dialogue?

In my view, it is imperative that we use the opportunity that Cancún offers to re-emphasise objectives rather than processes, and to re-focus on opportunities rather than costs. And it is critically important that substance is not trumped by tactics.

While I do not doubt the *bona fides* of the teams that work so hard at the various international negotiating conferences, it would appear that tactical considerations seem too often to prevail over substantive outcomes. This will most definitely not be the approach of the Australian team.

We need to argue the case for economic reform as the fundamental solution to the problems resulting from climate change. And we need to engender confidence that this key economic reform will actually stimulate growth and prosperity as we invent new technologies that increase energy efficiency, introduce renewable energy sources, and discover new ways of reducing the world's carbon pollution.

In truth, we have no other option. The international community cannot afford to allow inaction to become a habit, because that only postpones the inevitable. Quite simply, the costs of inaction are significantly higher than the costs of action.

Australia's Climate Change Objectives

To protect the national interests that I have outlined above, the Gillard Labor Government supports the achievement of a legally-binding international agreement that that will deliver reductions in carbon pollution consistent with stabilising atmospheric greenhouse gas concentrations at 450 parts per million

CO₂ equivalent or lower – broadly consistent with the goal of limiting global average temperature increases to less than 2 degrees Celsius.

The two complementary elements of this objective are the level of global ambition for carbon pollution reductions, and form of the international agreement.

We want to see all major economies contribute to the global mitigation task. We cannot solve this problem unless key countries – the 20 or so responsible for some 80 per cent of the world's emissions – contribute their fair share to solving this problem.

The legal form of the eventual international agreement is equally important. A robust, legally-binding agreement which captures these mitigation pledges will give confidence that all countries are committed to delivering on the actions within it, thereby encouraging greater action by individual countries.

Ultimately, these are elements of the final deal. While such an outcome is highly desirable and has broad global support we do not expect agreement on these aspects in Cancún.

In this sense, it is important to look at each year's UN Climate Conference as points in a series. While individual meetings may not deliver big picture outcomes, when the progress of several meetings is considered collectively – for example from Bali in 2007 to Copenhagen in 2009 – real progress is clearly evident.

Nonetheless, Cancún is an important opportunity to deliver a set of decisions that will build support for, and underpin the success of, a final international agreement.

A realistic and balanced package of outcomes from Cancún should reflect the interests and priorities of all parties. It should include something for everyone, including action on mitigation, adaptation, finance, technology and forests. The notion of 'something for everyone' – or a balanced package of outcomes – is central in a multilateral system such as the UN Climate Change negotiations.

Where decisions are taken by consensus, all 194 participating countries have equal say, so it is critical that all countries feel they have secured an outcome that will have substance for their domestic constituents.

So which of these are important for Australia?

Each of the key elements is important in different ways. To mention just a few:

We need a mechanism to reduce deforestation in developing countries, which are responsible for 18 per cent of global carbon pollution. The mechanism should deliver tangible reductions in carbon pollution, and a sustainable stream of income for forest communities.

We need a framework to prioritise the support for adaptation among the most vulnerable developing countries, and to share knowledge about how to managing unavoidable climate impacts.

Another of Australia's key approaches in Cancún will be to work hard to agree to a new system for countries to report their greenhouse gas emissions in a transparent, measurable and verifiable manner. Providing transparency on the mitigation contributions of all countries will allow us to build confidence that all countries are serious about climate action, recognise efforts and better assess progress against individual and collective goals.

Equally important to Australia's approach is the issue of market mechanisms. A broad, deep and well-functioning international carbon market will help Australia to meet its emissions targets at least cost. As a small and open economy, it is critical that we pursue expanded and improved international market mechanisms to provide low cost abatement.

While there has been much talk about the merits of allowing overseas abatement into a domestic carbon pricing mechanism, this is essentially a false argument. A tonne of carbon saved in a developing country is no different from a tonne of carbon saved in Australia. In fact, the costs of such abatement can often be cheaper, and have the added benefit of transferring clean technology and mitigation knowhow to these countries, thereby raising the standards of living of those less fortunate than we.

This overarching strategy is supported by a set of specific targets to which I will turn in a few moments. But it is important to bear in mind that this negotiating strategy is only achievable if four key economic objectives are met at the same time.

First, Australia has to maintain a competitive economy and continue to build consensus on both the need to address the effects of climate change and the way we do it. It is in this context of maintaining our international competitiveness that we must perceive the import of establishing a price on carbon. We need to put a price tag on pollution, to provide the incentive to transform to a clean energy economy.

I do not need to remind this audience that national competitiveness depends on the competitiveness of our national industries, enterprises and businesses. According to the Global Competitiveness Report, Australia is currently ranked 16th, which suggests room for improvement.

The factors holding back our increased productivity are technological readiness, business sophistication and innovation – each of which underpins improved productivity.

A carbon price need not be a hindrance to our international competitiveness. In the long-term, it is an essential precursor.

Second, innovation is critical to our economic competitiveness. It is sometimes said that Australians are terrific at improvisation – at “tweaking” existing capabilities and technologies to squeeze a bit more value out of them. But we are perhaps less comfortable with innovation, which demands a step change – a paradigm shift to use an even more hackneyed expression – to visualise entirely new opportunities and entirely new ways of doing things.

As the French business school INSEAD notes in its 2010 report, Australia ranks 18th on a global innovation index, after Iceland, Singapore, New Zealand and Norway. We have some way to go here, too.

Third, we must ensure that Australia retains its long-term investment appeal, and that we maintain a stable investment market. To state the obvious, innovation demands investment.

And fourth, we must work to ensure a strong and vibrant global economic and trading system.

Australia's Climate Change Targets

Australia's target conditions set out a direct connection between the emissions targets and the strength of global action.

To recap – our target range involves an unconditional minimum commitment to a 5 per cent reduction on 2000 levels by 2020. Committing to higher target levels depends on seeing sufficient international action.

The Government has stated that we will make cuts of up to 15 per cent on 2000 levels if major developing economies commit to substantially restrain their levels of carbon pollution, and advanced economies take on commitments comparable to Australia's. And we have also made it clear that if comprehensive global action emerges capable of stabilising CO₂ equivalent concentrations at 450ppm or lower, we will reduce our emissions by 25 per cent.

There has been some recent debate about whether the conditions for moving above our 5 per cent target have been met. Earlier this year, when submitting Australia's target range to the Copenhagen Accord, the Government made it clear that it would not increase this target until certain things had occurred.

These include:

- the level of global ambition becomes sufficiently clear, including both the specific targets of advanced economies and the verifiable emissions reduction actions of China and India;
- the credibility of those commitments and actions is established, for example, by way of a robust global agreement at the next United Nations Climate Change Conference in Mexico, or commitment to verifiable domestic action on the part of major emitters including the United States, India and China; and
- there is clarity on the assumptions for emissions accounting and access to markets

Our position on these remains the same and in the Government's view these things have not yet occurred. Therefore we remain committed to our existing target range.

Even though some countries and regions have higher numerical targets than we, comparing the numbers directly can be misleading. Our growing population, economic profile, variable environmental conditions and energy mix are some of the reasons that Australia's 5 per cent target stacks up well in terms of effort against, for instance, the European Union's commitment to reduce emissions by 20 per cent. For example, the European 20 per cent target implies a fall in emissions per capita of 24 per cent between 1990 and 2020, while our 5 per cent target translates to a fall in emissions per capita of 34 per cent over the same period.

This is a reflection of the historical emissions intensity of our economy – 85 per cent of our electricity comes from coal-fired generation. This reality is too easily overlooked in simplistic comparisons with the targets enunciated by other countries – countries that may use nuclear power or that have extensive renewable sources such as hydro electricity.

On the relationship between our targets and a domestic carbon price mechanism, I think that it is useful to make a couple of points.

First, the Carbon Pollution Reduction Scheme that I spoke of earlier was a mechanism that would have enabled us to guarantee that our targets were met in full. This is because a cap and trade market mechanism, such as the CPRS, allows for the setting of a cap on annual carbon pollution to ensure that the necessary reductions are met. What's more, it would have achieved this in an economically efficient way.

Second, the Government also designed the CPRS to be flexible enough to adjust the targeted emissions reductions in response to international developments. To be clear on this point, if the conditions for our 25 per cent reduction target were met, the Government had the ability in the legislation to adjust the CPRS accordingly.

This is an important point in the context of the opposition to the CPRS by the Greens, who want to see a reduction in emissions in the range of 25 to 40 per cent by 2020. It was therefore a big, big call by the Greens to block the CPRS – it has significantly delayed Australia’s ability to start reducing emissions and therefore made any 2020 target harder to achieve.

Where To from Here?

As the story about the Irishman who, when asked by a traveller “which is the way to Dublin” responded “I wouldn’t start from here” illustrates, it would often be nice to start from somewhere else. But we are where we are. In my opinion, we must take stock of where we find ourselves on climate change, and proceed confidently and deliberately on six main fronts.

First, we must ensure that the community understands the facts of climate change science. Governments around the world have not done as well as they might have in this area, and we are now paying the price for that politically.

Second, we must press on with the economic reform that would introduce a carbon price into the economy, and that would advance an international carbon trading market supported by internationally agreed trading rules.

Third, as a Government, we must maintain our efforts to ensure that Australia remains economically competitive. The Hawke-Keating reforms of the 1980s did much to position Australia for the economic success that makes us, as the Treasurer rightly reminds us, the envy of the world. But we need to maintain the momentum, continually reforming and adapting if we are to stay competitive.

Fourth, we must improve our capacity for innovation. While this is a particularly pressing matter with respect to carbon pollution reduction, it is important across the economy as a whole.

Fifth, we must maintain an emphasis on intergenerational equity. The Government and the community are united in their wish to generate a better life for their children and their grandchildren. In the 21st Century, that doesn’t just mean prosperity. It means habitability and amenity, clean air and drinkable water.

Lastly, we need to continue the progress towards developing the international framework for action: carbon accounting and markets, transparent reporting and adaptation finance. Without these systems and details, international commitments on abatement will be harder, less ambitious and take longer to implement once high level political agreement is reached.

Conclusion

As I set out for Cancún, I am fully seized of the important diplomatic task that confronts Australia. Our fundamental negotiating position rests on a very clear understanding that, while the tools at our disposal are the tools of diplomacy, the issues are basically economic. And to deal with them, the world needs a legally-binding global agreement.

Professor Ross Garnaut's remarks at the conclusion of his 2008 Climate Change Review are as prescient as they are disturbing.

“If there is a comprehensive and effective global agreement, the scene will be set for reconsideration of ambition once it has been demonstrated that mitigation is consistent with continued economic growth. If there is no such agreement, the outlook is an unhappy one. On a balance of probabilities, the failure of our generation would lead to consequences that would haunt humanity until the end of time.”

If we take responsible economic action now, including putting a price on carbon, we will see the benefit for generations. We will see the social and environmental benefits of reducing carbon pollution, and all the trouble this causes. We will see the benefits of providing a predictable investment environment for Australian businesses. And, ultimately, we will see the benefits of becoming a smart, strong and sustainable economy in a low pollution future. I hope the world can agree that these are benefits worth aiming for.