



PRIME MINISTER

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THE HON JOHN HOWARD MP
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Climate change: The right balance for Australia

Climate change is a large, complex and serious global challenge that will occupy the world for decades to come.

Over time, the scientific evidence that the climate is warming has become compelling. The link between emissions of greenhouse gases from human activity and higher temperatures is also convincing.

Contrary to the claims of some, Australia has long been an active player in the search for an efficient, effective and equitable solution to climate change.

Today I outline new measures – costing \$627 million over the next five years – that reinforce our commitment to tackling global warming.

Of all the inhabited continents, Australia already has the driest and most variable climate. Climate change means our water security problems will likely intensify, which is why this Government has invested so heavily in national water reform.

Our great and unique natural ecosystems, like the Great Barrier Reef, are potentially threatened. And many of our major industries – not least agriculture – are highly sensitive to changes in the climate.

Because of our natural abundance of fossil fuels, Australia's economic prosperity is also threatened if our response to climate change is misguided and driven by ideology.

All the good intentions in the world are worthless if we wreck our economy for no environmental gain.

With so much at stake, we must not confuse panic with virtue.

Australia's climate change policy must be rational, far-sighted and sustainable. It needs to reflect our unique vulnerabilities and particular economic strengths. It needs to be global, regional, national and local.

This challenge, I believe, is best met by a blend of prudent conservatism and economic liberalism.

A prudent conservative knows we are but temporary stewards of the environment. The Burkean sentiment – that society is a partnership between those who are living, those who are dead, and those who are to be born – comes as second nature.

In the face of risk, a prudent conservative takes insurance. We should, in the words of Rupert Murdoch, 'give the planet the benefit of the doubt' given the potential dangers of climate change.

A blend of prudent conservatism and economic liberalism has other things going for it.

It is realistic about human nature and the pursuit of national interests. It values the power of the market and of local decision-making. And it knows the limits of state planning and why flexibility must be built into policies and institutions.

This mix of prudent conservatism and economic liberalism has steered Australia through more than a decade of successful reform, including far-reaching change in our carbon emissions profile.

Annual savings in Australia's greenhouse gas emissions are expected to reach 87 million tonnes by 2010.

Without domestic action, Australia's emissions would have reached an estimated 125 per cent of 1990 levels by 2010. Instead, we are tracking well

towards our current target of 108 per cent of 1990 levels for the period 2008 to 2012.

Now we must position Australia for a low carbon future. We face a major new reform challenge in designing an emissions trading system and setting a long-term goal for reducing our emissions in the absence of a global carbon scheme.

These decisions will be amongst the most important Australia takes in the next decade. They need to be taken carefully and rationally with a clear eye to maintaining our economic strength.

Reducing carbon emissions will mean higher energy and petrol prices. Australians need to understand that.

Glib calls for drastic, immediate cuts in Australia's emissions might be easy rhetoric for opportunistic politicians. But they carry real and potentially large costs to our economy.

The best way to combat global climate change is to progressively tighten the screws on emissions while encouraging clean technologies for an energy hungry world.

Notwithstanding some of the fear and self-loathing that has crept into this debate, four fundamental realities remain:

First, climate change requires a truly global response. With Australia's contribution to global emissions at less than 1.5 per cent and falling, nothing we do alone will materially affect our climate.

Second, we must accommodate demands for economic development, energy security and environmental sustainability. Without all three you are left – at best – with a two legged stool.

Third, different countries will choose different policy approaches. National diversity – in different stages of development, economic growth, demography and natural resource endowments – must be harnessed.

And fourth, the Kyoto Protocol is not an effective blueprint for future action. It provides no pathway for meaningful commitments by the very countries which will account for the bulk of future greenhouse gas emissions. Without a framework that includes all major emitters, we lack a genuine global solution.

There is an acute irony here. The loudest voices on climate change – not least the Australian Labor Party – tend to be those who invest almost mystical powers in multilateral institutions.

Yet on this issue they are wedded to an instrument in which only 36 of 175 nations are required to do anything to reduce emissions.

Clearly, climate change is an immense international challenge. This is why Australia is leading on practical steps like our Global Forests Initiative and the Asia-Pacific Partnership for Clean Development and Climate.

The good news is that mankind has powerful tools for the task ahead, none more so than the spirit of discovery inspired and channelled by those bulwarks of human progress – rational science and free markets.

Australia brings formidable assets to this challenge: an educated, can-do and adaptable people; a modern, flexible economy; world class scientific expertise; deep engagement in the politics of globalisation 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, remains our best weapon against climate change.

The false prophets are those preaching Malthusian pessimism or anti-capitalism. They are the real climate change deniers because they deny or obscure rational, realistic and sustainable policy solutions.

A moralising tone of utopian internationalism is not particularly helpful either. Institutions will only work and endure if they harness national interests. The world needs less Woodrow Wilson and more Adam Smith to effectively tackle climate change.

Let me remind you that in 1997 the US Senate voted unanimously (95-0) against any treaty that did not include major emitting developing countries. Indeed, when the Clinton Administration signed the Kyoto Protocol, it was then Vice President Al Gore who said that the US could only ratify once 'key developing nations participate'.

‘This is a global problem that will need a global solution’, he said. Nothing has changed in the last decade.

I believe we have reached a new moment of opportunity in the global politics of climate change, after a decade of inflated rhetoric and modest results under the Kyoto model.

There is now what I regard as an emerging pragmatic consensus on a way forward that includes all major emitters. And Australia is helping forge this consensus.

It is clear that the Kyoto model provides neither a global solution nor a lasting one. This is why Australia supports negotiations beginning as early as possible on a new global framework.

A successful Conference of the Parties to the United Nations Framework Convention on Climate Change, to be held in Bali in December, will be crucial.

We also support international efforts to set – by the end of next year – a long-term global goal for reducing greenhouse gas emissions. This is in line with our setting a long-term emissions reduction goal for Australia.

We will continue to encourage all relevant international efforts to arrive at a lasting global solution to the problem of climate change.

Last month I outlined Australia’s plan to use this year’s APEC Meeting in Sydney to build support for a new global framework. I see APEC as a major opportunity to bridge continued gaps between developed and developing countries.

The Government is under no illusion about the task. Indeed, our assumption, based on the report of the Task Group on Emissions Trading, is that a comprehensive global mechanism will take years to develop.

Australia will not wait for this to emerge. Last month I announced that the Government will establish an emissions trading regime for Australia based on a ‘cap and trade’ model, beginning no later than 2012.

Our goal is to begin in 2011, subject to relevant design issues being properly completed.

One of the first in the Asia-Pacific region, it will be world's best practice and designed to last for decades to come.

Today I announce key design features and administrative arrangements for this critical piece of national economic architecture. The scheme will include:

- Maximum practical coverage of emissions sources and sinks, and of all greenhouse gases;
- A mixture of free allocation and auctioning of single-year dated emissions permits;
- A 'safety valve' emissions fee designed to limit unanticipated costs to the economy and to business, particularly in the early years of the scheme; and
- Recognition of carbon abatement by firms in the lead-up to the commencement of the scheme.

My department – the Department of the Prime Minister and Cabinet – will be responsible for implementing this system. It will consult closely with industry and other stakeholders to avoid the mistakes evident in systems introduced without adequate preparation.

Before selecting a long-term emissions goal in 2008, the Government will commission careful modelling of the impact of various targets.

We will not do as the Opposition has done – set a target with no analysis of the consequences for Australia and then scramble around *ex-post* for a study to justify it. This encapsulates Labor's economic inexperience and the risk this poses to Australia's economy.

The Government will establish a team within the Commonwealth Treasury to oversee this modelling and to assess the impact of any target on Australia's economy and Australian families. Using a range of Australian economic models, Treasury will:

- advise the Government on the macroeconomic, sectoral and distributional implications for Australia of reducing greenhouse gas emissions;
- examine the effects of different abatement targets over selected time periods; and
- model the effects on key economic indicators including growth, employment, income, and prices (particularly electricity prices) as well as the impact on different sectors of the economy, with particular regard to the impact on households.

Australia's long-term emissions target will be both environmentally credible and economically achievable. We will build in flexibility to re-set the emissions trajectory if new scientific information or technologies become available, and as the international framework takes shape.

This is the smart, sustainable way to set targets.

The Government will also introduce legislation this year to provide for a comprehensive and streamlined national emissions and energy reporting system to underpin the introduction of emissions trading.

In April, the Council of Australian Governments agreed to establish a mandatory national reporting system, with detailed design to be settled after the report by my Task Group on Emissions Trading.

Despite this, the states have pushed ahead in an ad hoc way by including requirements for greenhouse gas emissions reporting in the National Pollutant Inventory.

The Commonwealth will therefore legislate to establish a new purpose-built monitoring, reporting and verification system. We will work with other jurisdictions to remove duplicative reporting requirements and to limit the reporting burden on business.

Governance will be critically important to the integrity of the emissions trading scheme, in particular separating policy functions from operational aspects.

From 2009, an independent regulator for emissions trading will be established within the Treasury portfolio. Its responsibilities will include allocating and auctioning permits, certifying offsets and ensuring compliance.

This emissions trading system will be world class in its coverage and governance. It will avoid the political fixes and economic failures that dogged the initial phase of the European Emissions Trading Scheme.

In the years to come, it will provide a model for other nations to follow, further underlining Australia's global leadership and institutional innovation in managing the risk of climate change.

Being among the first movers on carbon trading in this region will present new opportunities for Australia. And we intend to grasp them.

A deep and robust market for carbon will be vital. The Government will examine what further steps can be taken to ensure that Australia becomes a carbon trading hub in the Asia-Pacific.

We also intend to link our design work domestically with actions taken by other developed and developing countries, especially in the Asia-Pacific region. I have already announced joint work with New Zealand on emissions trading design issues, especially those surrounding treatment of agriculture, forestry and offsets.

Of course, an emissions trading scheme is only one part of a comprehensive long-term policy framework. There is no magic green bullet for addressing climate change.

Low-carbon technologies remain the key to an effective response that minimises the costs of limiting emissions.

This in turn demands a comprehensive portfolio of clean energy solutions. Removing any one technology from the mix increases the costs of action and makes stabilising global emissions that much harder.

Ultimately, technologies must meet the test of the market and a domestic emissions trading system with a steadily rising carbon price will help fund and drive deployment of clean energy technologies over time.

There is, however, still a crucial role for government to support research, development and demonstration of low emissions technologies.

As the Government's 2004 Energy White Paper outlined, Australia has the physical resources, the human capital and the technological strengths to be a global leader in key low emission technologies.

We can be an energy superpower in a carbon constrained future, but only with the right policy settings and only if we draw on all our national capabilities and resource advantages.

Abundant reserves of coal, gas, solar energy resources, geothermal potential and the world's largest low-cost uranium deposits provide a natural strategic focus for Australia's clean energy technology policy.

Under our Low Emissions Technology Demonstration Fund, the Government has already funded major projects which together involve investments of approximately \$3 billion. These include funding for the world's largest and

most efficient photovoltaic solar power station and the Gorgon CO2 Injection project which, when fully operational, will be the largest geosequestration project in the world.

Through the Asia Pacific Partnership on Clean Development and Climate, we are mobilising Australian expertise – public and private – on the enormous challenges surrounding clean development in our region.

As a major producer and exporter, Australia has a crucial role to play in the development of clean coal technologies. Renewable energy sources, and our relative strengths in solar, wind and geothermal energy, will also become increasingly important.

The Government also believes that Australia – sitting on almost 40 per cent of the world's low cost uranium reserves – cannot stand aloof from future developments surrounding nuclear power. This would be an act of economic and environmental folly in the extreme.

Nuclear power production has no direct CO2 emissions and is already a significant part of the world's energy system. Improved economic competitiveness and safety of nuclear power, along with concern for energy security and climate change, are leading to a steady increase in worldwide nuclear power capacity.

The development of next generation nuclear energy systems – known as Generation IV – promises further advancement in the areas of fuel utilisation, cost competitiveness, safety, waste minimisation and proliferation resistance.

Today I announce that the Government will invest \$12.5 million in a Nuclear Collaborative Research Programme between the Australian Nuclear Science and Technology Organisation (ANSTO) and Australia's university sector. This will augment Australia's ability to participate in the global Generation IV Nuclear Energy Systems Initiative.

Ladies and Gentlemen, we all have a role to play in reducing greenhouse gas emissions. As I said earlier, our actions must be local, as well as global, regional and national.

A strong climate change policy requires a broad-based community response, in the same way that the challenge of water security demands the widest possible community engagement.

The Government is committed to encouraging local communities and households to take their own practical action – both to lower carbon emissions and to better managing our nation’s scarce water resources.

We are currently providing grants of up to \$12,000 to schools that install solar electric panels. And already under the Government’s *Community Water Grants* programme at least 1,600 schools have received funding for rainwater tanks.

Today I announced that, in addition, the Australian Government will provide up to \$50,000 to guarantee funding to install a solar hot water system and a water tank and associated infrastructure in every Australian school.

These ‘Green Vouchers’ for schools will help raise awareness of the challenges future generations face to reduce greenhouse gas emissions and to better manage our water.

Clearly, the more people change and adapt their own behaviour, the less reliant governments will be on blunt instruments that carry a heavy cost.

Some 214 local governments (representing 82 per cent of our population) are participating in the Australian Government’s *Cities for Climate Protection* programme, helping communities take action to reduce carbon emissions.

Under our *Small Business and Household Action Initiative* announced earlier this year, all households will receive information about climate change actions that they can take. They will be able to calculate their carbon emissions and seek to become ‘carbon neutral’ by purchasing offsets through the Government’s *Greenhouse Friendly* programme.

More than 22,000 homes either have received or will receive direct support under the Australian Government’s Photovoltaic Rebate Programme for installation of solar panels. The rebate currently available is up to \$8000 per home.

The Australian Government has already supported the installation of solar hot water systems in more than 170,000 homes by making them eligible to generate Renewable Energy Certificates.

Depending on the system, these Renewable Energy Certificates can be worth up to \$900 towards the cost of the solar hot water system.

And today I announce further steps to bring solar hot water within the reach of many more Australian families.

The Australian Government will provide an additional \$1,000 per household so that up to another 225,000 homes can upgrade to an energy saving solar hot water system. These homes will also be eligible to earn Renewable Energy Certificates.

Water heating is the largest single source of greenhouse gas emissions from the average Australian home. Now more Australians will have access to Australian solar technologies with the capacity to reduce carbon emissions and to save households about \$300 in annual energy costs.

The policies I announce today bring to \$3.4 billion the Australian Government's investment in tackling climate change since 1996.

Earlier this year, I described myself as a realist on climate change. Increasingly I'm also an optimist because of the sheer dynamism of 21st Century capitalism and the new momentum emerging for a more comprehensive global framework to succeed the Kyoto approach.

Necessarily this will take time and be built from the ground up. The Asia Pacific region will be at the centre of its design, with Australia in the lead.

Stabilising atmospheric concentrations of greenhouse gases will require a deep transformation of the world's energy systems. It will be hard, but it is possible.

We do not have to sacrifice economic prosperity. We do not have to rethink capitalism. Indeed, markets will drive any solution.

But we do need to engage the community. We do need massive worldwide investment in low carbon infrastructure. And we do need a far-reaching new phase of economic reform here at home to establish a world-class emissions trading system.

One thing is for sure. The world will only unleash the clean technologies of tomorrow and successfully tighten the screws on greenhouse gas emissions against a backdrop of economic strength.

And it is only against that backdrop of economic strength that we can deliver the best environmental outcomes.

On that basis Australia will more than play its part.