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MINISTER FOR CLIMATE CHANGE AND ENERGY EFFICIENCY

AUSTRALIAN INSTITUTE OF SUPERANNUATION TRUSTEES

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CHECK AGAINST DELIVERY

Introduction

Thank you for the opportunity to address you today at your annual conference.

There are parallels between the struggle we are facing to secure a Clean Energy Future and the struggles of the Hawke-Keating Government to put in place compulsory superannuation.

In both cases, the Government faced an opportunistic Opposition that screamed that the economy would collapse if the policy reform occurred.

They were aided by some of the more myopic members of the business community who could not see beyond short term costs to the economic and social benefits that Australians would enjoy.

I am confident that just as compulsory superannuation has proved to be a vital, positive long term economic reform, so will our plans to place a price on carbon.

It has not escaped the Government's attention that the Australian Institute of Superannuation Trustees (AIST) has welcomed our plans to put a price on carbon as it provides certainty in investment and greater investment opportunities in clean energy and renewable energy technologies.

There are four key areas of carbon pricing policy that are of special relevance to your industry.

First, the long-term nature of your investments means that you need to take into account the risks of climate change impacts on the economy more broadly, and on particular sectors or companies.

Second, you have a direct interest in ensuring that policies to reduce carbon pollution are efficient, because the value of the funds under your management is tied to the long-term health of the Australian economy.

Third, as your industry has clearly highlighted, it is important to end the years of uncertainty regarding future carbon pricing policies, to allow investors to make long-term decisions.

Fourth, to enable you to make sound investment decisions, you require transparency as to how a carbon price will affect different companies and what assistance they are receiving.

The legislation the Government will be introducing into Parliament provides this transparency.

The Government's plan announced on 10 July by the Prime Minister is a comprehensive blueprint to move to a clean energy future.

It is a plan that will cut pollution in the cheapest and most effective way. It will also provide certainty to support investment for business in innovative and new clean energy opportunities.

Put simply, this plan is a prudent way for Australia to play its part in tackling the global challenge of climate change.

It is more than a price on carbon – the Plan also encompasses renewable energy, energy efficiency and land measures.

It is this holistic approach that will provide certainty for investors and secure a stable and growing economy and environment for future generations.

The Plan recognises the imperative for action while maintaining strong economic growth and providing new opportunities for industry.

The science

Climate change is on the agenda because of clear scientific evidence. But we understand that this is a complex subject, cluttered with misinformation.

This year we established the Climate Commission to cut through this complexity and provide the clearest advice possible to the Government, and all Australians, on the risks we face.

The Climate Commission recently delivered 'The Critical Decade' – a concise assessment of the latest climate change science.

The key message of the report is clear: we must move to address climate change, and we must move now.

This is the critical decade for action.

A global issue

Australia's carbon pollution represents 1.5 per cent of global emissions of greenhouse gases.

That makes us one of the top 20 polluting countries in the world.

Our annual carbon pollution is roughly the same as that of countries like Spain, France, Italy, South Korea and the United Kingdom. All of those countries have populations two to three times larger than Australia's.

In fact, Australia produces more carbon pollution per head of population than any developed country in the world, more even than the world's biggest economy, the United States.

We have a national and global responsibility to act.

This Government's move to put a price on carbon follows similar steps in many countries, which have or are in the process of introducing similar arrangements.

For example, Australia's top five trading partners—China, Japan, the United States, the Republic of Korea and India have implemented or are piloting carbon trading or taxation schemes at national, state or city level.

The European Union has had an emissions trading scheme since 2005, covering half a billion people. China has announced it will introduce emissions trading progressively in a number of key cities and provinces, including Beijing and Shanghai, which cover more than 100 million people.

A recent Productivity Commission report highlights that Australia is far from striking out on its own.

It shows us that the world is increasingly acting on climate change and a carbon price is the lowest-cost way to cut pollution.

The challenge ahead

I would like to take a moment to reflect on what this package is really delivering Australia

A structural reform that will allow us to make bigger transformations in the future, that will fundamentally change our economy, create the environment for innovation and ensure Australia's future prosperity.

The Government has made an unconditional commitment to reduce Australia's carbon pollution by 5 per cent reduction on 2000 levels by 2020; we have committed to reductions of up to 15 per cent if there is an international agreement where major economies agree to substantially restrain carbon pollution and advanced economies take on reductions comparable to Australia; and we have indicated we would consider a 25 per cent reduction target, under strict conditions including global action capable of stabilising greenhouse gases at 450 parts per million or lower.

While cutting emissions of greenhouse gases by 5 per cent may sound small this is actually a 23 per cent decrease compared to the amount of carbon pollution which would be emitted in 2020 if we continued on with business as usual.

This is a tough target to achieve.

In 2020, without a carbon price, Australia's emissions are projected to reach around 680 million tonnes of pollution.

If Australia achieves even a 5 per cent reduction on 2000 levels by 2020, we will have saved around 160 million tonnes of pollution.

To achieve this target you need a whole of the economy framework, which can be adjusted through time to meet changing circumstances.

The Clean Energy Future Plan will allow Australia to meet this challenge in the most economically efficient way.

Other major economies are watching Australia with interest.

By taking action, we lend momentum to international negotiations and put ourselves in a better position to promote strong action by other countries.

It is the Government's sincere conviction that Australia needs to do its fair share and help construct a global solution to this issue.

The economics of a carbon price: a credible and effective policy

In designing our policy the Government considered two key questions:

- Can the policy actually deliver the significant emissions reductions we need?
- And will it do it in the cheapest and most equitable way possible?

The first question is crucial for the credibility of any climate change policy.

The second is essential for maintaining a strong economy to underpin a just and fair society —something this Government will never compromise on.

Clearly an efficient policy will minimise the costs of meeting our commitments, while less effective policies would increase those costs.

This is why the core of the Government's plan is to implement a carbon price.

It is widely recognised across the economics profession that a broad-based, market-driven mechanism like a carbon price can achieve emissions reductions at the least possible cost to the economy.

Carbon pricing works by sending a clear market signal to investors and consumers about the pollution content of goods and services.

These signals will be most clearly felt by the largest polluters directly liable for the carbon price, giving them a strong incentive to cut their pollution. Any costs they pass through will also send a signal to their customers and consumers.

This means a carbon price creates a powerful incentive, from producers to end-users, to uncover the cheapest ways of cutting pollution and to innovate to stay competitive.

Other policy approaches don't create economy wide incentives, and so can't utilise competition to discover new and innovative ways to reduce emissions.

A carbon price embeds incentives in the economy. This drives the changes necessary to restructure our economy over time — ensuring the move away from high emissions technologies and products, toward cleaner technologies and products — at the least cost.

Impacts of the carbon pricing mechanism

Starting at a fixed price of \$23 a tonne in 2012-13, and then moving to a “cap and trade” emissions trading scheme in 2015, the carbon price will generate incentives to reduce pollution and invest in clean energy.

The price impact of the carbon price on households is expected to be relatively modest – on average, around \$9.90 a week in 2012-13, while average assistance provided by the Government will be \$10.10 per week.

Overall consumer prices are projected to increase by only around 0.7 per cent in 2012-13, much smaller than the 2.5 per cent rise in the CPI seen after the introduction of the GST in 2000.

Modelling from the Commonwealth Treasury shows Australia’s economy will continue to prosper with a carbon price.

It predicts that employment will continue to grow after the introduction of a carbon price. By 2020, while our carbon pollution will have reduced, national employment is projected to increase by 1.6 million jobs.

The modelling shows impacts will vary across industries.

But with industries employing more than 90 per cent of the workforce accounting for less than 10 per cent of emissions, much of the economy will be relatively unaffected.

Overall, the sectoral effects are small compared to normal variations over time driven by productivity, the terms of trade or demographic pressures.

The modelling is clear; a carbon price will drive structural change in key sectors, at the same time the vast majority of industries will continue to grow broadly as they would without a carbon price

Australia will enjoy robust growth in living standards, even as we make substantial cuts in carbon pollution.

Impact on your investments

As I have said, it is a narrow range of industries that will be directly affected by the carbon price. These emissions intensive and trade exposed industries will receive support under the Government's Jobs and Competitiveness Program.

This program is funded to the tune of \$9.2 billion in the first 3 years of the carbon price and is ongoing.

The Jobs and Competitiveness Program significantly reduces the carbon liability for these companies, while maintaining strong incentives for them to reduce their carbon pollution.

The result of this is that up until July 10, we saw a significant number of companies express concerns about the impact of the carbon price, but following the announcement of our policy very few have notified the Australian Securities Exchange regarding any material impact of the carbon price.

As key investors in these industries, this will provide some comfort to you.

It may be worth considering asking the boards of some of these companies to reconcile their public claims before the announcement with the fact that when the full details were known, most of them saw no requirement to notify the ASX of a material impact.

Investment and Clean Energy Finance Corporation

Turning now to new investment opportunities: a carbon price creates a competitive advantage for businesses, investors, researchers and innovators who find cleaner more sustainable ways of doing business.

The investment opportunities will be significant. Around \$100 billion dollars is expected to be invested in clean energy through to 2050.

Such investments will help drive new economic opportunity and new jobs, particularly in regional Australia.

To reduce carbon pollution and reduce the risk presented by climate change, Australia needs to transform its energy sector away from a reliance on coal, towards cleaner technologies.

Carbon pricing will allow a 60 per cent reduction in the electricity sector's emissions by 2050, compared to today's levels.

The non-hydro renewable energy sector for example, is projected to be 18 times larger in 2050 than it is today.

This transformation will be driven by the carbon price, but will be aided by sensible complementary measures, particularly the Government's Renewable Energy Target.

The Government remains committed to achieving 20 per cent of Australia's electricity supply coming from renewable sources by 2020. Together with a carbon price, it is anticipated the Renewable Energy Target will continue to drive around \$20 billion in renewable energy investment by 2020.

This economic transformation will require significant investment in clean technology innovation and the wide scale deployment of these technologies.

Until now there has been nervousness about investing in these areas due to the uncertainty surrounding policy settings.

For example, a recent AIST/Climate Institute survey identified a significant lack of certainty around climate policy as a barrier to many of the country's largest super funds investing in clean energy and clean technology.

The survey also found that 50 per cent of funds identified climate change-related policy from government as key to encouraging climate change-related investments in general.

Our plan provides this certainty and this direction for future investment in clean energy technologies. It will reduce risk and hence the cost of investment in these areas.

This will stimulate a wave of new investment in clean technologies; and the superannuation industry will be key participants in this wave of investment.

To help drive the necessary investment in clean technologies, the Government's plan includes a new \$10 billion Clean Energy Finance Corporation.

The Clean Energy Finance Corporation will be established to drive innovation by making commercial investments in clean technologies through loans, loan guarantees and equity investments.

The CEFC will boost financing for renewable energy and clean technology projects, investments critical to the transformation of the Australian economy.

It will target market failures that prevent the financing of projects. These market failures include risk aversion resulting from a lack of information and information asymmetries, as well as high costs of transactions, which reduce total amount of investment.

Investments will focus on renewable energy, energy efficiency and low emissions technologies, and the transformation of existing manufacturing businesses to re-focus on meeting demand for inputs for these sectors.

The goal of the Corporation is to remove barriers that prevent businesses financing large-scale clean energy projects.

The watchword for the Clean Energy Finance Corporation will be that it is commercially-oriented. The Government will carefully consider the Corporation's role in the market.

Before establishing the Clean Energy Finance Corporation, the Prime Minister will appoint a Chair to make recommendations on a detailed investment mandate, risk management policies and governance arrangements.

We expect the Chair to deliver their recommendations early next year. The Government will move quickly to respond, ensuring the Corporation is ready to start business on 1 July 2013.

I anticipate that the Chair will consult with key stakeholders, including the investment community, in preparing the recommendations.

The Government will also consult industry about the role of the Clean Energy Finance Corporation and its interaction with the Renewable Energy Target.

I encourage you to be involved in these consultations.

More broadly, I encourage you to explore future investment opportunities which arise as a result of introducing a carbon price and the Clean Energy Finance Corporation.

Forward-looking businesses, like the ones in this room, can play an important role in our clean energy future. I encourage you to step up to that role.

Conclusion

I would like to conclude by reflecting on the long hard fight the Government has had in developing this policy.

It is because of the robustness of the climate change science that we have fought so hard.

We could have taken the easy option and tinkered at the edges - but the science tells us this isn't enough.

While complementary measures such as planting trees and managing soil carbon will make a valuable contribution, these alone are not enough.

Real structural change to our economy is required, in combination with international efforts.

We know that without reducing our carbon pollution, Australia and the world will face impacts that will fundamentally alter how we live.

We would lose natural icons like the Great Barrier Reef and Kakadu National Park.

Impacts on infrastructure, agriculture and water security would challenge our social and economic systems.

But the science also tells us that we can avoid the worst of these impacts if we act now and play our part in the international effort to address climate change.

Our plan for a Clean Energy Future is the cheapest and most efficient way to deliver this for Australia.

We will secure Australia's natural and social heritage for future generations.

Lastly, I believe there are great similarities in what we as a Government and you as fund managers are trying to achieve.

We are both in the business of reducing future risk.

While fund managers need to reduce risk and look for stability and certainty in investments, the Government too is trying to mitigate and reduce risk – the risk posed by climate change for the future of this country's economy and society.

We have obligations to future generations.

We need to secure their environmental and economic security, and if we fail them, we fail ourselves.

This debate has been long and hard. But with the implementation of the Clean Energy Future package, and a carbon price from next July, I am confident that just as we look on the introduction of compulsory superannuation as a challenging and difficult reform for the longer term benefit of Australia so we will look back on our actions to tackle climate change as another momentous Labor economic watershed.

Thank you