



# SENATOR THE HON PENNY WONG

Minister for Climate Change and Water

National Press Club Address

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A Carbon Pollution Reduction Scheme for Australia

*Check against delivery*

## **Introduction**

In February this year, in my first major speech as Minister, I defined the response to climate change as a responsibility agenda.

It is a responsibility agenda in many ways.

It is about taking responsibility for what we are doing to our planet.

It is about taking responsibility for preparing for the future.

And it is about taking responsibility for protecting our economic prosperity.

This is not an abstract discussion about competing scientific theories.

It is no longer simply a discussion about what climate change may one day do to our natural environment. It is a recognition that climate change is already occurring.

It is an acknowledgement that Australia has a great deal to lose from climate change and we must act now to protect our prosperity and our way of life.

We confront a daunting reality: we cannot continue to pour carbon pollution into the atmosphere as if there is no cost.

This is not an emotional plea to abandon our self interest in favour of ecological concerns.

Quite the contrary. It is in our self interest to take on climate change, even if this is not easy.

Two weeks ago, Professor Garnaut released the compelling draft report of his climate change review.

If there is one message from Professor Garnaut's report, it is that failure on climate change is not an option for Australia.

The twelve hottest years in history have all been in the last thirteen years - and IPCC scenarios predict temperature rises between 1 and 6.4 degrees over the next century relative to the period 1980-99.

Without action, scientists predict up to 20 per cent more drought months over most of Australia by 2030, more intense and damaging cyclones and rising sea levels with serious impacts at home and on nearby, low lying Asian mega cities and Pacific Islands.

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.

The nation's food bowl, the Murray Darling Basin, is seriously up against it. This year's June inflow was a new record low of just 95 billion litres, down from last year's previous record low of 106 billion litres, and less than one sixth of the long term average of 680 billion litres.

Climate change threatens our food production, agriculture, and water supplies, as well as icons like the Great Barrier Reef, the Kakadu wetlands and the multi billion dollar tourism industries they support. Over 700,000 coastal addresses worth tens of billions of dollars are at risk of significant damage from extreme weather events.

Today we are already beginning to feel the economic and environmental costs of inaction on climate change. But if we delay action any longer, these costs will be felt even more acutely not only by our generation, but also our children and grandchildren.

Today, the Rudd Government's response to climate change enters a new phase.

Today we point the way to a low-pollution economy of the future, to transform the high-pollution economy of the past.

I am releasing the Rudd Government's Green Paper on the Carbon Pollution Reduction Scheme – a scheme which will reform and transform the Australian economy.

The Carbon Pollution Reduction Scheme is a response to climate change that is economically responsible, supports families and prepares Australia for our future challenges.

This Green Paper sets out options, and identifies the Government's dispositions and preferred positions, on emissions trading and the support we will provide to help households and businesses adjust to this economic transformation.

### **The Carbon Pollution Reduction Scheme**

Climate change is being caused by the ceaseless pouring of carbon pollution into the atmosphere.

If we are going to tackle climate change, we need to reduce carbon pollution dramatically – which is much harder to do than it is to say.

Over time – but starting now - we need to move toward the low pollution economy of the future.

That will require substantial investment in clean technologies that enable us to keep improving living standards while reducing our impact on the climate.

And it will require us to dramatically increase carbon productivity – the output per unit of carbon emitted. Put simply, we have to get more out of the carbon we use.

The Rudd Government has set a clear long term target on climate change, to reduce Australia’s emissions by 60 per cent of 2000 levels by 2050. Looking at our current emissions trajectory, it is clear that meeting this target will be a great achievement.

Clearly, all of us – governments, industries, individuals - will need to do more if we are going to tackle climate change and move to a cleaner future.

And to realise this greater ambition, to meet this challenge, we need to transform our economy.

As Nicholas Stern put it, climate change represents the “greatest market failure the world has seen”, because the market has never taken account of the cost of carbon pollution.

In other words, there has been no cost to producing carbon pollution and no limit to how much we can produce.

The effect has been to create a perverse incentive to pollute the planet, because on the face of it, the cheapest way to fuel our economy has been with carbon producing fossil fuels.

But in reality, this has not been cheap at all, and the cost is now being realised.

The wrong incentives in the market have driven climate change. If we are going to truly tackle climate change, we will need to harness the full power of the market in correcting these incentives.

This requires a market-based reform – which is why we need emissions trading. And this is why emissions trading is at the heart of our comprehensive Carbon Pollution Reduction Scheme: a whole of economy reform which works as follows.

- The Government sets a limit on how much carbon pollution industry can produce, and then the Government sells permits up to that limit, creating an incentive to look for cleaner energy options.
- Companies can buy and sell permits from each other depending on how much they value them, thereby enabling the market to find the most efficient ways to reduce carbon pollution.

While this is the most efficient, lowest cost and most economically responsible way to reduce carbon pollution, it is not without costs. There is no cost free way to tackle climate change.

This is why a key element of our Carbon Pollution Reduction Scheme is to ensure that every cent raised from the selling of permits will be used to help households and business as they make the move to a clean energy future.

The effect of putting a price on carbon will be profound. Indeed, 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 the reduction in tariffs or deregulation of the financial system.

Placing a limit and a price on pollution will change the things we produce, the way we produce them, and the things we buy. It will open new doors to a cleaner energy future.

It affects relative prices in the economy, so that those goods and services which are carbon intensive cost relatively more over time than those that are low carbon.

The market will reward companies and industries that find ways to produce their goods in a way that contributes less carbon pollution to the atmosphere.

And with a market based approach, consumers still get to choose what they consume.

By harnessing the market in the effort to tackle climate change, we are creating enormous opportunity for growth in a world where carbon is constrained.

The tough economic reforms of the past – opening up the economy, floating the dollar – mean Australia is now well placed to undertake this tough new reform.

Like those reforms, like our agenda to increase productivity with investment in skills and infrastructure, the Carbon Pollution Reduction Scheme will modernise our economy for the future and protect our standard of living.

## **Consultation**

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

It is clear to me from my discussions that both are well and truly on board with the need to tackle climate change. It is widely understood that this will be a tough economic reform, but that there is a necessity for a market based transition to a low carbon future.

Many businesses have made it clear they would like assistance for their circumstances. The Government has listened carefully to those views, and we will continue to engage closely with business as we finalise our approach.

But I would like to explain the Government's challenge here. As I said, once we agree to reduce pollution and introduce emissions trading (and there is strong consensus around that), we need to make it as broad as possible to minimise the costs.

So if you are to exclude certain sectors, that means the same overall carbon pollution reductions need to occur with a smaller pool of contributors.

Likewise, any arrangements to give assistance to one sector means another sector has less.

The economics of carbon reduction have an inexorable logic. None of the decisions is isolated. They are all linked. Giving relative priority to one 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, and extensive consultation that will continue well beyond today, before finalising our decisions later in the year.

In this Green Paper, the Government has sought to strike the right balance, on the basis of economically responsible policy in the national interest.

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*

There has been much talk about what's 'in' and what's 'out' of our proposed scheme – what we call 'coverage'.

Generally that discussion has been focused on whether petrol is in or not. This is a Government that understands Australians are struggling with rising petrol prices.

However, it does not actually help the circumstances of Australians struggling with petrol prices if transport emissions are not included in our scheme.

That's because, as I just said, regardless of what sources of carbon pollution you include, we still need to make the same reductions across the economy as a whole. If we are going to reduce carbon pollution, as we need to, those reductions have to come from somewhere.

The best way to reduce carbon pollution is to spread the work across the economy, so all sectors of the economy are doing their bit.

The bulk of Australia's emissions come from electricity generation, transport and agriculture. In the interests of economic responsibility, 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.

The Government does not consider that it is practical at this stage to include agriculture emissions in the scheme. We recognise that considerable joint effort with the industry is still required to identify practical methods for inclusion, and to develop reliable and cost-effective methods of emissions estimation and reporting.

On that basis, the Government proposes that the earliest that agriculture should enter the Scheme would be 2015, with a final decision on inclusion or exclusion to be made in 2013 in the light of progress in overcoming practical difficulties and after extensive consultation with the industry.

### *Commitments in support of households*

Families, pensioners and carers are foremost in the Rudd Government's considerations. They are under a great deal of pressure, with mortgage repayments, rent, groceries and petrol. In designing the Carbon Pollution Reduction Scheme, we have been extremely conscious of their interests now and over the long term.

As I have just outlined, our preferred option is to include transport emissions. However, to offset the initial price impact on fuel associated with the introduction of the Carbon Pollution Reduction Scheme, the Government will cut fuel taxes on a cent for cent basis.

We will periodically assess the adequacy of this adjustment measure for three years and adjust this offset accordingly. At the end of the three year period the measure will be reviewed.

This commitment recognises that for this reform to be as smooth as possible, it needs to be as broad as possible. It also recognises that rising global oil prices are putting a great deal of pressure on Australian motorists. As demonstrated by a report from the CSIRO released last week, we need long term solutions on transport to reduce our reliance on foreign oil.

Our commitment to cut fuel taxes for the first three years of the Carbon Pollution Reduction Scheme on a cent for cent basis to offset the price impact on fuel will offer motorists five years to plan for potentially higher fuel prices.

Over this period, many people will have the opportunity to make decisions, for example, on the purchase of a new car - informed by the longer term implications of their choices.

In addition to assistance with fuel costs, the Government will increase payments, above automatic indexation, to people in receipt of pensioner, carer, senior and allowance benefits and provide other assistance to meet the overall increase in the cost of living flowing from the scheme.

We will also increase assistance to other low-income households through the tax and payment system to meet the overall increase in the cost of living flowing from the scheme.

Middle-income households will also receive assistance to help them meet any overall increase in the cost of living flowing from the scheme.

Every year, in the Budget context, the Government will review the adequacy of payments to beneficiaries and recipients of family assistance to assist households with the overall impacts of the scheme, noting that these payments are automatically indexed to reflect changes in the cost of living.

In addition to this direct financial support, we will provide assistance through the introduction of energy efficiency measures and consumer information to help households take practical action to reduce energy use and save on energy bills.

Tackling climate change will be hard and there will be costs, but we will help Australians every step of the way.

#### *Commitments in support of businesses*

Business will also gain significant assistance.

For heavy vehicle road users, who transport goods across the country, fuel taxes will be cut on a cent-for-cent basis to offset the initial price impact on fuel associated with the impact of the Carbon Pollution Reduction Scheme. The Government will review this measure after one year, giving the transport sector three years to plan how to reduce their emissions.

To assist rural and regional areas, the Government will provide a rebate equivalent to the fuel tax cut for businesses in the agricultural and fishing industries for three years.

The Government will establish the Climate Change Action Fund (CCAF) to help business transition to a cleaner 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.

To ameliorate the risk of adversely affecting the investment environment, the Government proposes to provide a limited amount of direct assistance to existing coal-fired electricity generators. This is, of course, in addition to the Government's commitments to technological development, such as carbon capture and storage. The Government plans to deliver this new assistance, in part, through a new mechanism called the Electricity Sector Adjustment Scheme.

Different delivery mechanisms may be required for this support, which may include the provision of free permits.

#### *Commitments to support emissions intensive trade exposed firms*

We also propose to provide assistance to the most heavily emissions intensive trade exposed activities.

The extent of cost increases for businesses arising from the cap on emissions will depend on the emissions intensity of their activities. The more emissions they produce per unit of output, the higher the cost.

Many businesses will be little affected by the scheme, as they face the same cost increases as their competitors. However, trade exposed industries may not be able to

pass on the costs as they face prices set in international markets, and compete against firms that do not – at this stage – have comparable carbon constraints.

If these firms were to relocate elsewhere, with no consequent global reduction in emissions, it results in what is called ‘carbon leakage’. In other words, the carbon is still produced, just somewhere else.

Clearly, this 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, because this is 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.

To provide an indication of how this could work, the Government proposes that activities with an emissions intensity above 2000 tonnes of CO<sub>2</sub> equivalent per million dollars of revenue would have the initial assistance level set around 90 per cent of industry average emissions per unit of output.

We also propose that activities with emissions intensities between about 1,500 and 2,000 tonnes of CO<sub>2</sub> equivalent per million dollars of revenue would have the initial assistance set at around 60 per cent.

The Government also recognises that the rate of assistance to these industries will need to be gradually reduced over time, to ensure that all parts of the economy contribute to the objective of reducing emissions.

To do otherwise would simply place more of the adjustment task on other parts of the economy.

However, I should emphasise the precise thresholds, proposed rates of assistance, the structure of assistance and the preliminary list of activities that would be covered are indicative only. If subsequent information indicated that these parameters would result in an allocation of carbon pollution permits above or below 30 per cent of national emissions, then the Government would need to recalibrate the parameters.

### **Acting with the rest of the world**

Much has been said in recent weeks about the need for Australia to act with the rest of the world, and not go it alone.

The great irony of this call is it seems to have emanated from those who left Australia truly isolated and out of the Kyoto Protocol for the best part of a decade.

Of course, after so many years of inaction, it is impossible for Australia to be in front of the rest of the world in tackling climate change.

A greater risk is being left behind in a world of emerging economic opportunities.

There are great opportunities in moving to the clean economy of the future – a point that has been made by Professor Garnaut among others.

With so much to gain from tackling climate change, and so much to lose if we don't, we recognise that it is squarely in Australia's self-interest to act.

And we are also helping shape a global solution on climate change. We are heavily engaged in the next phase of international negotiations.

It doesn't take close study of these negotiations to know that if we are going to get the global action we need, we will have to act at home.

Leadership from the developed world encourages other countries to join the global effort.

With the Carbon Pollution Reduction Scheme, Australia will join other developed nations in the fight to reduce carbon pollution. Emissions trading is already operating in 27 European countries. Twenty-eight states and provinces in the US and Canada are introducing emissions trading, as is New Zealand. Japan is considering introducing a scheme. And in the US, both Presidential candidates are committed to introducing schemes to reduce carbon pollution.

The Government will take careful 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.

We will do this when we announce our medium term target range later this year, and in 2010 when we set the final path to 2015 and the indicative paths to 2025.

The design of our scheme is aimed at establishing a robust and credible market that provides the right degree of certainty for the market to plan and invest in the low emissions technology we need, while still providing flexibility to adjust to the global context.

## **Conclusion**

Climate change is sometimes seen as a distant and abstract problem.

But, in fact, it is a problem we face here and now.

The world's climate is already changing.

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

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

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

This is going to be hard.

This generation is being called to solve a problem which has been many generations in the making. And we are called to act to protect the inheritance of future generations.

We need to move to the clean economy of the future in an economically responsible way, with the minimum possible disruption and at the lowest possible cost to families and business.

We can't afford to wait.

The challenge is great.

But through our history this nation has shown we are a resourceful people, we are an innovative people, we are a capable people.

This is not beyond us.

This is the crucial test of this generation's economic leadership – a test this Government, and the broader Australian community, is determined to pass.

**JOURNALIST:** On the issue of the breakdown of compensation, you've outlined in the discussion paper that all the money that is raised from those permits that will be sold will go to helping households and businesses adjust to this new system. But there doesn't seem to be any money within that compensation fund to be set aside to boost renewable energy stocks which presumably people will be wanting to turn to, something that Professor Garnaut himself recommended. Did you consider that and is there any particular reason why the government decided not to go down that path?

**WONG:** Well a couple of things about that: the first is we are setting up two funds and what we've indicated in the paper is that the scope and operation of those funds will be determined as the government determines the final design at the end of the year. Obviously this is a Green Paper, out for consultation with the community and business. We have committed to establishing two funds and one of them is the Climate Change Action Fund which will, in partnership, assist in funding business transition to a cleaner, greener future and we flagged in the Paper investment in innovative, new low emissions processes.

Of course on top of that, the government has already delivered through this year's Budget a very substantial investment in renewable energy through our \$500 million Renewable Energy Fund and this works alongside of course our renewable energy target of 20 per cent by 2020 which was also a commitment we made prior to the election. So we have a suite of policies both pre-existing and flagged in the Green Paper which are about investment in renewable energy; investment in low emissions technology because we recognise this is a very substantial part of meeting the challenge of climate change.

**JOURNALIST:** Less than a couple of weeks ago, Professor Garnaut was here delivering his draft report and I guess the question on the minds of probably many people who are watching this broadcast and some people in this room is where the

Garnaut Report and that process fits in. I noticed for example Professor Garnaut was specifically against any assistance to electricity generators. He also warned against assuaging the extra costs on petrol associated with the scheme. You seemed to have made decisions contrary to that, so I'm wondering where is the Garnaut Report, has that now outlived its usefulness? You seem to have decided a number of these issues already.

**WONG:** Well Professor Garnaut has prepared a very comprehensive report which has been and will continue to be an extremely important contribution to not only government thinking in this area, but also to discussion within the community. But as I made clear earlier this year, Professor Garnaut is independent of government, we certainly will consider and have considered his advice and there are a range of areas where the government's position is very similar to the position that Professor Garnaut put. But obviously he's independent of government and ultimately government has to make its decisions about what we think is in the national interest. We have to progress the scheme in the most economically responsible way and we believe what we're putting forward to the Australian community today does strike the right balance in terms of the scheme and its objectives.

**JOURNALIST:** You'll be aware of the problems that they had with the European emissions trading scheme and I was just wondering, the carbon pollution reduction scheme, will it reduce the amount of carbon pollution or in five years time will we have someone standing there saying: "It's been a success because it simply slowed the rate of growth."

**WONG:** This is a scheme which is aimed fairly and squarely at, in the most economically responsible way possible, reducing Australia's emissions over time and transforming this economy from a high pollution economy to a low pollution economy of the future. We have a commitment in the government for, as I said, a 60 per cent reduction by 2050, that's a substantial commitment. The issue about how fast we move to reduce our emissions which is fundamentally a question about economic transition and economic transformation is a decision that will be made towards the end of the year as I have said and as the Green Paper indicates, we'll set a target range for our mid-term targets at the end of the year, we will do that after we have received the modelling from Treasury and the advice about how to proceed with that. But the whole point of the scheme over time is to reduce carbon pollution across the Australian economy.

**JOURNALIST:** You talked about how complex the modelling that Treasury is undertaking is, that Treasury initially was meant to be completed by June, then it was August and we now find out it's October. Is it fair to expect industry to comment on what you propose in the Green Paper, and that consultation finishes in September when they won't have actually seen the Treasury modelling, they won't know what the cost of the scheme is, they'll have really no idea about what the likely targets will be?

**WONG:** I think there are really two sets of decisions that the government will make in relation to the Carbon Pollution Reduction Scheme. The first and what this Green Paper is focused on is really the design elements. How do you build the scheme; what is included in it; what sort of assistance do we provide for families, for households; what sort of assistance do we provide to industry? So these are design questions about the scheme on which various sectors of business have obviously clear views. However, there is a second set of decisions that we will have to make by the end of the year, which is the trajectory, that is over what period of time will Australia's emissions reduce and the Green Paper sets out various decision points. There's one decision point

at the end of this year which looks at our mid-range target and then prior to the start of the first scheme.

Now, business will have the opportunity to consult on the Green Paper, can I just say, I have and my department has been consulting very closely with business over the last few months and I think the advantage of this Green Paper process is that by indicating its preferred positions, by indicating the direction it proposed to take, this does enable government and business to have a very focused dialogue on these issues. In terms of Treasury modelling, we've said that will be public and it will be released later in the year.

**JOURNALIST:** What would the criteria be for your review of the offset for petrol prices in three years time and is the starting point there that you want to remove the offset at that point, is that the idea of having your review then? And secondly, if I may, you talked about limited compensation for electricity generators, what exactly would you be compensating them for, is for a loss of assets value or for some other thing? You talk about the effect on the investment environment for electricity generation, but part of the point of the scheme it would need to effect the investment for environment for electricity generation and get them to invest in other things, so what is the idea behind that compensation, what would you want to achieve?

**WONG:** I'll do the second one first, the issue of compensation to what we call strongly affected sector, industries, of which as we flagged in the Green Paper, electricity generation is the most obvious one. We've had quite a lot of discussion with that sector and there's obviously been particularly Professor Garnaut's report a range of view in the public context about that. We took the view as the government that it was important to deal with one of the issues, in particular raised by that sector which was risk to investment. In other words, that the imposition of the carbon price would potentially send a signal to current and future investors and there was a concomitant potential risk. So, that's why we have said those are the parameters of the limited direct assistance that will be provided to that sector. In addition, what we've said is we recognise there are other energy security, transitional issues for that sector and hence the electricity fund that I described in the speech is the second of the business funds to which we're committing. The other question was on the petrol review, what the government is doing here is to ensure that for the first three years of the scheme, that Australian motorists are compensated for any increases as a result of the introduction of the scheme. And what we've said is that we will have the cent for cent offset on fuel taxes for the first three years. We will also adjust it periodically in light of our desire that it be adequate. What we have said is at the end of the three years, we will view the adjustment mechanism, we would envisage that the offset at that time would be retained, the question at that point would be weather or not it would be continued.

**JOURNALIST:** I'd like to remind you what ABARE's forecasting for some of our fossil fuel exports in 2011, the first year of the scheme's full operation. It forecasted in March this year that we would be exporting 155 millions tonnes of coal in 2011 which is a 30 per cent increase on this year's estimate. It also forecasts we would be exporting 19.4 million tonnes of LNG which is again 30 per cent increase, now these fossil fuels are going to be burnt in countries almost totally where there's no carbon price. So it seems to me that Australia loses twice, there are paying price for carbon here but they are contributing to the increase of global emissions, how will you explain that to voters?

**WONG:** The issue you raise is how do we deal with those emissions - how do we deal with emission intensive trade exposed activities and how do we deal with the fact that climate change is a global problem? On the second point, we know climate change is a global problem, that's why we are engaging in the way we are in the international negotiations. That's why we ratified the Kyoto Protocol. This is something the nations of the world will have to address in total. But there are a couple of points about that. The first is that we do have a very strong self interest as a nation to act, Professor Garnaut and others have made that clear, so we have a strong vested self-interest in a strong international outcome, so we are focused on that.

In terms of the transition to a world where there is a more comparable global carbon constraint, what we have said and I have outlined today is that we recognise that there are some Australian firms and industries which operate on global markets and that's why we need to ensure there is transitional assistance to that sector, to ensure that we avoid carbon leakage and we recognise that the cost comparison for them obviously is substantial. So, that's the thinking behind what the government's put out today in terms of emissions intensive trade expose sector. There's not running away from the fact that climate change is a global issue. The question is how do we, as Australia, best prepare ourselves, given our vulnerability to climate change and how do we impact upon the international scene to ensure there is a global solution.

**JOURNALIST:** You say that lower income families will be compensated for the overall impact of the scheme, does that equal a guarantee that low income household will be no worse off under an emissions trading. And a second question if I may, there'd be thousands of workers down in Victoria's La Trobe Valley today wondering about their futures and the futures of their jobs and their community, what assurances can you give them about the future?

**WONG:** So the first was low income and I think you and I had a discussion about this before. We would envisage that low income households for the purposes of that commitment would be those earning up where there is a maximum rate of FTBA, which is around \$53,000. And what we've said is that we will increase payments and other assistance to meet the overall costs of living flowing from the scheme. Now, obviously governments can't control or predict every spending decision a consumer makes, but our commitment is that we would have regard to the overall increase on them and meet those costs.

In relation to the electricity sector which the coal-fired generators to which you referred, I'd again refer you to what we've said. Two forms or two aspects of the assistance, because we do recognise the impact on that sector, potential impact on that sector of the introduction of a carbon price. So we have the electricity sector adjustment scheme which would be focused on ensuring energy security and also, if necessary, regional and structural adjustment for that sector. We've also flagged that we would provide those firms, we would envisage limited, direct compensation or assistance including, possibly via the provision of free permits. Now, those are issues we will still have a dialogue with that sector of industry about, they are obviously one of the groups the government will continue to engage with in the coming months as we finalise the design.

**JOURNALIST:** The compensation or the adjustment policy that you outlined would be welcome I think by most energy generators, but probably not environmental groups. Doesn't compensation simply just encourage business as usual, what incentive is there for business to actually make changes to the way they're doing business at the moment?

**WONG:** This scheme is about fundamentally transforming the economics of how we do business and how we choose the products and services we buy. For the first time what we will have is the cost of climate change starting to be included in the prices that we pay for those goods and services and in the economic decisions that business makes. That's what we're doing through the introduction of a Carbon Pollution Reduction Scheme. We are putting in place, we are putting a cost on carbon, we are including some of the cost of climate change in the economic decisions we make. So, absolutely this is not business as usual, this is a fundamental, economic transformation across the whole of the economy.

**JOURNALIST:** You've indicated in the Green Paper that there will be assistance for affected industries. But that assistance will be wound back over time. Is the Government doing any modelling on how many jobs will inevitably be lost in those industries and, if so, are you going to release it?

**WONG:** Can I deal first with the issue about why we need, over time, to reduce assistance to the energy intensive trade-exposed sector. If we are reducing, as an economy, over time, our carbon emissions, you can't have one sector completely shielded such that over time they simply don't contribute to that national effort and this goes back to what we've been talking about for some time. The logic of this scheme is that we have to have the lowest possible cost move to a cleaner economy and that means all parts of industry, or parts of the economy, have to make some contribution over time to that effort. So that is why. What we are saying is that we recognise this is an enormous economic transition and what we will do, as a Government, is ensure that we provide assistance and support for business as they make those transitions to a cleaner economy of the future.

**JOURNALIST:** If you could just clarify an answer you gave to a previous question. In 2013 when the excise offset on petrol is reviewed, is it expected that your base position will be that the excise offset will be scrapped unless there are compelling arguments otherwise?

**WONG:** No, I'm not going to go through the principles of what might occur then but what I was saying was this, it is the adjustment mechanism itself that will be reviewed. At that point, one would assume there would be an existing offset in place. It's not the Government's intention to wind the existing offset back, but what we will review is what will thereafter occur and in other words, whether that adjustment would continue.

**JOURNALIST:** Would your default position be to eliminate the offset unless there were compelling arguments otherwise?

**WONG:** Well I'm not sure that we've got a default position on something which is three years out. What we've said is we've got a commitment up front to cent for cent offset for motorists. We've got a commitment to adjust that within that three year period to ensure it's adequacy and will review that adjustment mechanism at the conclusion of the three years.

**JOURNALIST:** Senator Wong, my question relates to deforestation. In the Green Paper it states that land clearing, or deforestation, is responsible for 11 per cent of Australia's national total of emissions yet you've excluded land clearing from this scheme. Can you explain why?

**WONG:** Look, the reason that we have not included deforestation within this scheme is really twofold. The first is that land clearing regulation in Australia and the regulation of forest industries has really dealt, in large part, with those issues, with the issue of broad scale land clearing. As you know, most of the States have put in place land clearing regulation and that has actually, if you look at the emissions from land use change over the last 10 years, has had a substantial impact. So we did recognise that.

The second issue is, frankly, a practical issue. Because of the existing land clearing regulation a lot of what is left in terms of native vegetation, native forests on private land is reasonably small and is, if you were to include that in an emissions trading scheme, you would have multiple points of liability across this sector. So, in other words, you'd have the Government in a position where it would have to try and ask individual land holders to remit permits on these issues for this activity and our view was that the imposition of that was administratively complex and we questioned, given the other regulation that exists in this sector, what net environmental gain is benefited.

Can I say what we are doing, and I'm sure you would have picked this up, is we are saying that forestry is in, from commencement, on a voluntary basis. Now what that does do is that owners of land who wish, previously cleared land, who wish to establish a forest sink, can do so and create a credit or a unit to sell into the Carbon Pollution Reduction Scheme. So they can, there's a financial incentive to create effectively a permanent forest sink with obvious abatement benefits. Now, once in, if they chose to harvest it then they would have to remit a permit to the Government. So it's an opt-in for forestry that does enable some of the benefits of forest sinks to be included in the scheme but we were very conscious of both the administrative complexity and also the fact that this, in large part, has been dealt with by State land clearing regulation.

Can I make one final point on that? The Government was also conscious, if we contemplated putting deforestation in, the policy experience in other countries has been that you get quite substantial pre-emptive clearing. So that is a decision that you just have to make and say, bang that's it. So we were very conscious of that.

**JOURNALIST:** Petrol is obviously a very politically sensitive issue and you've made a decision to subsidise the rises in price associated with this scheme but it seems that you're going to have to ensure that motorists understand how much of the price rises they face are associated with this scheme and how many cents per litre are associated with other factors like the global oil price. How are you going to do that? Is everyone going to have to watch the carbon market and aren't you just creating an appetite that every time the price goes up there will be an expectation the Government will subsidise? Aren't you just playing to your political opponents here?

**WONG:** There's three or four questions there, I think, Karen. But they are all on petrol. Well look, can I say first why we've done this the way we have. We've had a very substantial increase in petrol prices as you all know since the beginning of the year. I think it's 35.5 cents on average, so that's a very substantial increase. So we are very conscious that Australians are already responding or dealing with substantially or a significant rise in petrol prices since the beginning of the year.

We're very mindful that we do need to give people time to transition. People time to make the change and under this scheme we're effectively giving Australian motorists five years notice. Five years notice before there's a likelihood that the price impact of

the Carbon Pollution Reduction Scheme will be felt in petrol. So that's a very substantial period and does give people sufficient time to consider, you know, factor in that knowledge into the choices they make.

So in terms of other issues associated with the price increases in petrol. I think it's fair to say Australians do understand that there are many reasons why global oil prices rise and some of those are within Government's remit and other aren't but we were very determined when considering how we should design this scheme, to be aware of the impact on families, on Australian households, of the already significant increases in petrol this year.

**JOURNALIST:** In the Green Paper it recommends that companies be allowed to engage in some limited borrowing of permits from their allowance from following year. Doesn't that disadvantage those companies that do the right thing and meet their obligations without having to borrow and therefore doesn't it somewhat undermine the aim of the scheme which is to encourage a decrease in emissions?

**WONG:** Well, borrowing, that is using a future permit to remit against or acquit in relation to a liability this year, is one of the ways you might smooth out the path. So you might smooth both the price and the adjustment path. We've been very conscious, when you look at the Green Paper and I think it's quite clear, of ensuring a measured start to this scheme and whilst the most important indicator of that will be the trajectory, that is the target ranges we've set, there are obviously a range of other designed decisions which you have to put in place to ensure that measured start. For example, we have, as you have probably seen, suggested that we would have no export of Australian units overseas in the early part of the scheme and that we would allow some limited importing of permits. Now those sorts of parameters, including the way we've approached both banking and borrowing, are aimed at ensuring a measured responsible start to the scheme.

Can I talk about, though, what we're doing in terms of the incentive to abate? Business makes their decisions, as you know, over reasonably long time frames and what we are doing in the Green Paper is setting out, proposing a system where there is quite substantial forward indication or forward information to business. That's for a range of reasons. One is this. The one thing that I think is consistently said to governments in this area is that, this is what you can do, this is from business, you can provide us with some certainty. You can provide us with some clarity about where we're going to go because we can factor that in to our decision making. So if you look at what we're doing, proposing in the Green Paper, we're saying, look we'll give you between 10 and 15 years indication of where we want to go in terms of trajectory. So five years of scheme caps, so what the caps within the scheme would be, and then an additional 10 years of what we call the gateway which is the range of where we think we're likely to go in the subsequent 10 years which is reviewed every five. So at any one time business will have a minimum of 10 years knowledge of where Government thinks it's going to be. Five hard caps as we call them, so five scheme caps then the additional gateway or range and the reason for that is it is important for Government's to give certainty to business because we know this is an economic transformation. We need Australian business to factor in where we think we're going in terms of their investment and other decision making in the years to come.



**JOURNALIST:** (inaudible)

**WONG:** No, what I can say is this, there are, we will get more design decisions clear on those issues towards the end of the year. There are some issues also where the Government does recognise the benefit in doing them earlier. For example energy efficiency where Minister Garrett, through his portfolio, already has a substantial amount of programs for energy efficiency. Obviously they are programs we would benefit in rolling some of those out earlier because we obviously want households to be able to implement those measures prior to the introduction of the scheme.

**Ends.**