

Leading the World on Emissions Trading – a Question of Courage.

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Australia is poised to move from global laggard on climate change policy to trailblazer, setting the benchmark on emissions trading and innovative policy implementation. Australia's unique position of inaction and isolation presents it with the opportunity to build the world's best emissions trading scheme (ETS). The year ahead will determine whether it has the courage to deliver on this potential.

The introduction of an ETS will have a major impact on the Australian economy and there will be big winners and big losers. As a result intensive lobbying efforts will be made by all sides. The best outcome for the nation will be achieved if Rudd ignores the vested interests and listens only to the economists and the political strategists. Australia's inaction to date presents an opportunity to use the experience gained elsewhere to design the world's most effective ETS. By demonstrating an innovative and courageous system, the world will have a pilot scheme on which to base the emerging global system. Australia could perform a huge service to the world by focussing on the ideal system and ignoring purely local perspectives.

If Rudd can sell this vision to the world on his current trip to the US, Europe and China, he will win the support of the world's major powers. By taking a calculated risk for the world, Australia will find itself leading the global climate change debate and being in a position of influence as a global ETS is developed. Rudd will also find that global leaders will fortify his courage to face down the pressure that will be exerted by the lobby groups with so much at stake.

The local reaction to the proposed Australian ETS would of course weigh heavily on any Government, regardless of its international support. The Rudd Government has pledged to deliver draft legislation on an ETS by the end of 2008 with the scheme to commence trading in 2010, only months prior to the next federal election.

Industry has reacted to the proposed ETS in two, very different, ways. The increased certainty of a carbon price has resulted in many dormant renewable energy projects moving towards financial close. These projects now have the support of Australia's big energy companies that, to date, have only been bit players in renewables. Origin Energy has announced an option agreement to build 590MW of wind power, AGL has announced an expansion to its South Australian wind farm developments and TRU announced an investment in the US\$380m 154MW concentrating solar photovoltaic power plant planned for

Mildura. In addition, voluntary carbon offset providers are emerging from all directions and many 'climate change' themed investment products have recently come to market.

At the other end of the spectrum, the trade exposed emissions intensive industries (TEEI) upon which Australia relies for much of its export revenue have been quick to publicly position themselves. There have been threats of reduced investment in Australia and talk of options to move to countries with more forgiving carbon schemes. In addition, domestic coal-fired power generators have said that the increased costs for power and materials will be devastating for many. Furthermore, a recent McKinsey & Co report estimated that there would be an average annual gross household cost of A\$290 to reduce emissions by 30% by 2020. This will mean lobby groups for low income households will be pushing for compensation.

This mounting pressure will be hard for the Government to ignore and it may seem as though there are few groups left supporting their actions. A loss of courage in these circumstances would not be surprising and would reinforce electoral cynicism about the implementation of policies that ensure re-election.

A steady voice through the alternating pressures associated with policy formation is likely to be Professor Ross Garnaut. His review has shown to date that it is sticking to its remit to *'examine the impacts of climate change on the Australian economy, and recommend medium to long-term policies and policy frameworks to improve the prospects for sustainable prosperity'*. Garnaut is confident in his economic principles and welcomes the rational inputs of all parties. He more than anyone is likely to provide the right balance for Australia without being swayed by emotive arguments.

Garnaut's interim report, issued in February, states that Australia has an *'exceptional sensitivity to climate change'* and recommends the adoption of ambitious long-term targets. A further discussion paper released last week proposes some key aspects for the design of the Australian ETS. These include no compensation for high emitting industries and the return of all permit auction revenue to the public. The Government has noticeably distanced itself from Garnaut since the release of the interim report, with Wong stating that Garnaut's final report will be an *"important input"*, but that the Government would also be *"looking at other inputs"*.

Garnaut's mandate appears to be lacking is in its inability to provide a complete recommendation to the Government on the long term strategic advantages of being bold and taking a lead in the world.

Australia's position is unique. According to the Australian Bureau of Statistics, Australia puts into the atmosphere 17.5 tonnes of carbon dioxide per capita per year, compared to the rich country average of 11.1 tonnes. However in total it contributes a mere 1% of the world's emissions. A bold and innovative Australian ETS could aim to make significant and broad-

based domestic cuts in the knowledge that there would be little impact on the global outcome in the unlikely event that the scheme fails. The world would have the perfect pilot project demonstrating the efficacy of ideas in the safety of a relatively small and isolated market. Will Australia dare to take this leap to lead the world or will it play safe?

A constant difficulty for all politicians, Rudd included, is the maintenance of their vision. Policies concerning climate change present the added challenge of maintaining a long term world view rather than succumbing to short-term local interests. If the Rudd Government can follow through with the passion for change that it has offered to date there is a real chance that Australia can finally shine in the global climate change debate. If however short-term local interests are heeded, a watered down Australian ETS will emerge, much to Australia's and the world's disadvantage.

His current world trip is the perfect forum perfectly timed for Rudd to become the travelling salesman for an effective solution to climate change. Australia can lead the way for the world on how to best deal with emissions but needs the world's support to overcome local resistance to structural change. He stands to gain the world's support and a position of strength from Australia will benefit. Returning home a hero, he would be emboldened with the strength to resist those who wish to lead him from his path. The opportunity awaits.

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Profile of the Author

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John left Origin Energy, one of Australia's largest energy companies, after 9 years in June 2007, having spent the last 6 years working on growth, strategy and M&A projects in addition to being the founding secretary of the company's Operational Risk Committee. He specialized in reviewing and filtering clean energy opportunities and in the water industry, securing Origin's entry and then leading a board strategic review. Through the combination and interaction of these sectors he became interested in the emerging cleantech sector and in 2004 started developing both the company database and further finance industry contacts with the aim of starting a cleantech business.

He is now running Australian Cleantech and has advised a number of organizations on their options with respect to investing in the clean energy market. He has also launched the ACT Australian Cleantech Index that tracks the performance of Australia's listed Cleantech companies, is advising State governments on policy initiatives, is managing the Beyond Carbon Festival and is on the board of two currently unlisted renewable energy start-ups. He has engineering degrees from the University of Oxford and Trinity College, Dublin and an MBA from Adelaide University. He is a member of the Australian Institute of Company Directors, the Institute of Engineers Australia and the Australian Water Association.

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