I am glad for the chance to speak alongside the Minister for Environment Greg Hunt. The Minister has consistently accepted the science of climate change, and that Australia should do its fair share in a global mitigation effort. The Minister played an important role in the then Opposition’s and now Government’s support for the Australian Government’s emissions reduction targets, communicated to the United Nations in 2010 and reconfirmed by the then Opposition during the 2013 election campaign: to reduce greenhouse gas emissions by 5% from 2000 levels by 2020 whatever the rest of the world is doing; by 15% if other developed countries are making comparable efforts and important developing countries making substantial reductions below business as usual; and by 25% in the context of a global agreement that holds out good prospects for containing human-induced warming to within 2 degrees Celsius.

These bipartisan emissions reduction targets—somewhere between 5 and 25% depending on what the rest of the world is doing—are challenging. We were on a path to an increase of more than a quarter in the absence of policy changes at the time the commitment to the international community was made. A number of policy and structural developments have brought at least the 5% target within reach from domestic emissions reductions, so long as the current policy framework is maintained, or something equally effective takes its place.

Australian emissions have fallen in a growing economy in the two years since the full set of policies was established, without damaging economic activity in any noticeable way.

Current policies are well judged to allow Australia to contribute its fair share of the global emissions reduction at a relatively low cost, as that fair share rises with increased mitigation effort in the rest of the world. In addition, as Nobel Laureate Stiglitz said in Canberra earlier this week, apart from its effects on greenhouse gas emissions, carbon pricing is a relatively efficient way of raising revenue at a time of daunting budget challenges.

But the success of established policies does not matter. The current policy framework will change radically next week or soon after when the Palmer United Party joins the Government in the Senate to end carbon pricing in its present form, and joins with the Opposition parties to block repeal of some other climate laws. Last week’s statement and subsequent clarifications by the Leader of the Palmer United Party, Mr Clive Palmer, suggests that Australian climate change mitigation policy, law and institutional framework will soon have the following elements:

1. No current carbon pricing.
2. Continued support for carbon pricing by the ALP and the Greens. Commitment by the Palmer United Party to attempt early reintroduction of a framework for
an Emissions Trading Scheme, initially to have a zero price, with a positive price being introduced if and when Europe, the United States, China, Korea and Japan were making specified emissions reduction efforts.

3. Retention of the laws underpinning the Climate Change Authority (with its role in advising on the setting of targets), the Clean Energy Finance Corporation and the Renewable Energy Target.

4. Intention by the Government to abolish the Australian Renewable Energy Agency, but opposed by the Opposition parties, and with the Palmer United Party considering its position there is a possibility that the Senate will not support repeal.

5. Intention of the Government to introduce legislation to establish an Emissions Reduction Fund under the general description of “Direct Action” to be defeated by a Senate majority, with the possibility that the Government will seek to introduce elements of the Fund through extra-Parliamentary means.

6. Continued commitment by the Government to meeting bipartisan targets on emissions reduction (5 to 25 percent depending on what other countries are doing) by domestic means only, without purchase of international credits, although the opposition parties accept limited use of international developing country (CDM) credits (12.5% of enterprises liabilities) and for practical purposes unlimited purchase of credits generated within the European Emissions Trading Scheme.

This set of policies puts Australian official policy in a difficult place. It will be difficult even to meet the unconditional 5 percent target—the renewable energy target will secure large reductions in emissions from the electricity sector, but there will be no mechanism to reduce emissions elsewhere, including the rapidly growing fugitive emissions from LNG and coal production. It can safely be said that it will be impossible to meet the emissions reduction targets required by other countries’ action.

Unless Australia moves from this place, it risks damaging the international effort to reduce the risks of dangerous climate change; seriously damaging important international relationships at a time when the United States, China and the major European countries amongst others are gearing up for a strong outcome at the 2015 Paris meeting of the United Nations Framework Convention on Climate Change; and greatly increasing the cost of reducing emissions when delayed action is undertaken under international and domestic political pressure on compressed timetables.

Today I suggest one small modification of the emerging policy framework that would be a long way from anyone’s preferred position including my own, but much better from every perspective than the position in which climate policy has landed. The suggestion retains many elements of what has become Australian climate policy, keeping modification to a minimum in the interests simply of political feasibility. The modification would allow Australia to meet its international commitments, assist rather than retard current international efforts to accelerate international action on climate change; and avoid difficulties in Australia’s relations with the United States and other important international partners as we work through the G20 meetings later this year and the series of United Nations meetings on climate change leading up to Paris in
December 2015. Its effects on electricity and gas prices to users would be indistinguishable from the effects of repealing the carbon pricing laws. For the Government, it would remove the domestic political costs of explaining repeated failure to meet announced targets on emissions reductions or blow-outs of costs.

I suggest that all parties consider the advantages of keeping the Emissions Trading System structure established by existing legislation, remove the fixed price, and for the time being allow unlimited access to United Nations CDM credits. The price of emissions permits would fall to less than a dollar. The Climate Change Authority would advise on targets as required by existing legislation. The current limits to use of CDM credits would be restored if and when the Climate Change Authority certified that such restoration would leave the Australian climate change mitigation effort and the cost of that effort no higher than in China, the United States, Korea, Japan and the European Union.

This formulation would allow the Australian commitments to the United Nations effort to be met in full, whatever the extent of international effort. It would be met at a carbon price barely above zero until such time as there was sound evidence that the five specified countries and regions were making substantial efforts.

The second large advantage of the suggested modification is that it would keep alive the framework of the emissions trading system. It would give practical form to the Palmer United Party’s commitment to reintroduce an ETS, initially with a zero carbon price until such time as there was substantial mitigation action in the five specified countries and regions. It would avoid what would eventually be felt as the necessity to introduce multiple intrusive regulatory interventions along the lines introduced in the United States since the failure to establish a national emissions trading system in 2010.

The system without the constraints on use of CDM credits, would generate a modest amount of revenue, in the vicinity of $100 million per annum in the immediate future, which could be allocated according to Government preferences.