

▪ **PREMIER OF NEW SOUTH WALES**

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TOTAL ENVIRONMENT CENTRE
"IN CONTROL OF CARBON" BREAKFAST
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(check against delivery)

Are we as a State, a country or the world in control of carbon?

I fear we are a long way from it. I'm not going to present the science of global warming here today just like I wouldn't trouble you with proof the earth is round, not flat or that our planet revolves around the sun, not the other way around.

Global warming is a fact. A fact established by scientific analysis and a fact endured in:

- * the past European summer
- * the recent Californian bushfires
- * the breaking up of the polar ice caps, and - as Professor David Karoly has shown
- * in the severity of our own current drought.

The only debate worth having now is how we deal with global warming. I actually think we can even skip that debate because the international community has already spent five years thrashing out the Kyoto Protocol and another six trying to ratify it. A new treaty would waste another decade. And many more years would pass before countries actually began meeting their targets.

So let's think of Kyoto, despite all its faults, as the only show in town. That's why my Government has been at the forefront of Australian opinion in calling for ratification and why that call is growing stronger every day. When the finance sector, insurers, major law firms - and even the Business Council of Australia - start talking about global warming and attending an event like this you know the time to change has come.

Look at BP, hitherto one of the world's biggest greenhouse culprits. They pledged to cut their global greenhouse gas emissions by 10 percent below 1990 levels by 2010. They met the target last year, eight years ahead of schedule and at no net economic cost. If they can do it, anyone can. Think about the insurance industry. They're not wallowing in Kyoto denial because they know the effects of global warming will mean more claims and more pay outs. The Insurance Australia Group has noted:

- * changes to the nature of [extreme weather events] could appreciably alter the risk to people and property and ultimately impact on the price and availability of insurance."

Here's some concrete examples.

- * Insurance Australia Group estimates a 25 percent increase in the speed of

wind gusts will increase building damage by 650 percent. They also say an average increase in temperature of one degree could result in a 17 to 28 percent increase in bushfires.

* In 2002, Munich Re noted a \$50-70 billion loss due to natural catastrophes in that year and estimated that global warming impacts could cost \$300 billion by 2050. Munich Re also note that "world-wide economic losses due to natural disasters appear to be doubling every ten years, and have reached \$1 trillion over the past 15 years".

And I'm told that in the United States, parties are now taking civil action alleging failure to address climate change by reducing greenhouse emissions. So ours isn't a naïve approach to climate change.

Kyoto Protocol Ratification Advisory Group

We're not being cavalier about the costs, either.

That was a clear consideration of the independent Kyoto Protocol Ratification Advisory Group commissioned by several State Governments last November. The Advisory Group found that the costs of ratifying Kyoto would be very low.

We're talking about something like just 0.11 percent shaved off GDP or less than half a day's output. Indeed, the so-called "Australia clause" in the Protocol means reductions in land clearing alone could almost entirely meet Australia's Kyoto targets in the period to 2012.

Then there are the opportunities Kyoto will open up:

- * access to low cost greenhouse abatement through international emissions trading;
- * investment potential for Australian firms in developing countries through the Kyoto Protocol's Clean Development Mechanism; and,
- * new investment in Australia, particularly for carbon credits generated by the establishment of new forest plantations.

Carbon Sinks

My Government has already positioned NSW to take advantage of these opportunities.

We did that back in 1998 by legislating for carbon rights one of the first places in the world, if not the first, to do it.

This is an extraordinary opportunity because we can provide the carbon credits industry around the world needs all while bringing jobs, investment and - above all, trees - to New South Wales. Australia has an enormous competitive advantage when it comes to providing carbon sinks.

The Northern Hemisphere is responsible for about 75 percent of global greenhouse emissions; the southern hemisphere the remaining 25 percent. This imbalance simply reflects the contrasting levels of industrialisation and population in the north. Conversely, Australia has the abundant land - sparsely occupied land - to offer the opportunity for plantation-based carbon sequestration plantations that could also help fix other environmental problems such as salinity.

Already State Forests has identified more than 60 European corporations with Kyoto obligations who might want to plant trees here. Closer to us, Japan will be a net purchaser of carbon credits under the Kyoto Protocol and that means reliance on carbon sequestration and emissions trading.

That's why one of the world's largest utility firms, the Tokyo Electric Power Company has already agreed plant 3,000 hectares of trees on the NSW North Coast to offset its emissions in Japan.

In a similar vein, two months ago, I announced a \$172 million carbon sinks contract with the Swiss company, ST Microelectronics. It will see 12 million trees planted on the mid-north coast of NSW as carbon offsets. These are the sorts of opportunities Kyoto opens up for us. But if Australia still fails to ratify, we will start paying some tough economic penalties.

Loss of investment opportunities

The reason is simple.

Trading relationships are increasingly based on a new tradable commodity - carbon credits. It's already having an impact on existing markets. Again, let's take Japan.

Japan currently accounts for around 46 percent of Australia's coal exports. Japan has announced a new carbon tax from 2005 on coal, oil and gas imports. This will put serious pressure on Australia's coal exporters.

In addition, Japanese coal buyers are beginning to request that Kyoto-compatible credits be 'stapled' to imports of coal, to offset the greenhouse gases emitted by burning coal in Japan.

On my recent trip overseas promoting NSW, I met with directors of major European banks. I was left in no doubt of the risk that our exporters face because Australia is an 'outsider' on Kyoto.

Companies in ratifying countries are demanding Australian firms deliver their exports with either carbon credits or a substantial price offset to compensate for the costs of mitigating emissions.

This raises a question about the access Australian firms will have to carbon credits internationally if we don't ratify Kyoto. The answer is not straightforward. Uncertainties remain as to how the market will be established. We do know that firms based solely in Australia will not have access to credits under the Protocol's formal trading regime.

And we also know Kyoto Parties will be able to establish domestic regulations to restrict the flow of credits to non-Parties and secondary markets as part of the requirement to register movements in credits.

Yes, carbon credits will be available through secondary markets. But international purchasers may be unwilling to purchase Australian credits to meet their domestic obligations because credits from Kyoto Protocol Parties should be readily available.

And consider this. The EU has announced that non-ratifying Parties will be barred from participation in the EU's internal emissions trading system. We're talking about a market of 300 million people, second only to the United States in wealth. And we will be locked out.

Some take the fall-back position that if Australia does not ratify the Protocol, at least Australian firms can access carbon credits under the Clean Development Mechanism. However, anecdotal evidence suggests that China is showing a preference for Clean Development Mechanism investment from ratifying countries. And some Australian firms are already claiming the Chinese position is causing them to lose out to French competitors.

Other developing countries may follow China's lead and give preference to investment from Protocol Parties. If this occurs, Australian-based businesses will find it very hard to capture a share of the green energy market in developing countries.

So Australia faces double-barrelled losses. We risk losing trade. And we risk losing investment in carbon credits such as clean power or forestry plantations. Having spent two decades opening up our economy it would be perverse if we cut ourselves out of huge swathes of the global economy by our refusal to ratify Kyoto.

That is the prospect. But the Australian Government's failure shouldn't stop us from acting. In fact, I don't want to have it said my Government sat there and did nothing because John Howard refused to ratify.

BASIX

That's why last month, my Government announced it will require all new residential developments in NSW to meet tough new energy and water efficiency targets embodied in what we call BASIX, the Building Sustainability Index.

From July 1, 2004, all new homes and units will be required to achieve:

- * a 40 percent reduction in water consumption; and

- * a 25 percent reduction in greenhouse gas emissions, rising to 40 percent from July 2006.

BASIX is estimated to save 182 billion litres of water and 8.3 million tonnes of greenhouse emissions over 10 years.

A new Department of Energy, Utilities and Sustainability

Frank Sartor and I want that momentum to continue and that's why today I can announce the Government will establish a new Department of Energy, Utilities and Sustainability. This new department will include SEDA's specialists in demand management, energy efficiency and renewables.

It will work closely with the Greenhouse Office and agencies such as the Department of Infrastructure Planning and Natural Resources and the Department of Environment and Conservation to ensure cross-government coordination.

Already, Minister Sartor has asked the heads of the State-owned energy companies to come up with specific plans on sustainable energy use plans that will build on our greenhouse benchmarks for electricity retailers, another world first.

NSW Retailer Benchmarks Scheme

Our benchmarks are a smart, flexible form of regulation that let industry decide how best to meet its targets.

Firms can, for example, turn to natural gas or renewable sources such as solar and wind. They can elect to educate consumers to use less electricity. Or they can invest in greenhouse offsets such as forestry plantations. The choice is theirs.

But it means we can cut greenhouse gas emissions by seven million tonnes a year, the equivalent of taking 2.9 million cars off the road. Already, our plan is showing dividends.

Renewable Energy Systems, a UK wind farm developer, in conjunction with Southern Cross Windpower, has just announced the intention to develop in NSW one of the biggest wind power portfolios in Australia. Just the sort of opportunities our new Greenhouse Office - a commitment from this year's State Election - is being set up to encourage and enhance.

NSW Greenhouse Office

The NSW Greenhouse Office will be established early in the New Year, reporting directly to me.

It will lead the development and review of greenhouse policy across government. One of its first tasks will be to develop a NSW Greenhouse Strategy within the first twelve months of its operation. The strategy will identify what we need to do at a state and national level to reduce greenhouse emissions including stronger linkages between public and private sectors.

The NSW Greenhouse Office will be supported by an independent greenhouse panel to advise the office on broad policy and program directions. This mirrors the excellent model used in previous work on assessing the implications of ratification of the Kyoto Protocol. I will appoint the chair and members of the advisory panel shortly.

New Greenhouse Innovation Fund

A key responsibility of the Greenhouse Office will be to administer a new Greenhouse Innovation Fund to support innovative research and technologies particularly in areas outside the energy sector such as waste, industrial processes, transport, forestry, and land use. The Fund will be supported by an allocation of \$6 million a year.

New taskforce on energy demand management fund

A further priority for the Greenhouse Office will be establishing a taskforce on an energy demand management fund. That's crucial because electricity demand is growing strongly, with peaks putting the system under strain during the summer.

IPART recommended an energy demand management fund as part of the solution noting there are substantial cost-effective opportunities to use demand management in NSW. But such a fund must do more than promote pilot projects. It must - and will - promote bolder measures to ensure serious State-wide reductions in energy demand.

Need for national action

Another key challenge for the Greenhouse Office will be to renew the drive for Australia to ratify Kyoto.

I can announce today NSW will, in partnership with the other States and Territories, make a decisive push for a national emissions trading scheme based on our successful benchmark scheme.

I will shortly write to the Premiers and Chiefs Ministers calling for their support. A national emissions trading scheme would have a range of benefits:

- * emission reduction targets could be applied across a number of sectors such as waste management, manufacturing, forestry and farming, as well as energy;
- * it could provide an 'opt-in' provision for large energy users to develop their own benchmarks, with provision for banking, borrowing and trading of carbon credits;
- * the government would be confined to a regulatory and oversight role, leaving the maximum possible scope for the private sector to design and run a carbon credit system;
- * targets could be set initially at a modest level that still manages to set a national price signal for greenhouse emissions;
- * the costs of not meeting targets could be set to ensure that abatement is always a cheaper option, giving a "ceiling price" to carbon credits; and
- * carbon credits under an Australian national emissions trading scheme could be eligible to be traded internationally.

Conclusion

There's a huge agenda spread out before us a two-track agenda of getting John Howard to ratify Kyoto while at the same time ratifying Kyoto de facto within our State governments and within our companies. I don't want Australia or NSW to be left behind. The costs - to our economy and our environment - are just too high.

Let's get in control of carbon. There's nothing to fear. There's only jobs and investment to be won oh, and a planet to be saved, too!

Thanks for having me here this morning.

ENDS