

Opinion piece
Mitchell H Hooke
Chief Executive, Minerals Council of Australia

In a letter to his fiancé in February 1858, English journalist Walter Bagehot wrote that “I get tired of either sense or nonsense if I am kept continuously to either and like my mind to undulate between the two as it likes best.” Notwithstanding Bagehot’s seminal contribution to the understanding of democracy in his work, *The English Constitution*, such perambulations were of no real consequence. In the modern Australian political context, however, it does matter when debates on critical national policy issues are characterised by frequent undulations between sense and nonsense.

There are few public policy issues more prone to such undulations than Australia’s response to climate change. I am not referring here to debates over whether global warming is actually taking place. The minerals sector accepts the concept of climate change and considers that observance of the precautionary principle and prudent risk management dictates that Australia should work intensively with other nations to prevent dangerous climate change.

The real issue is *how* we chart our path towards a lower greenhouse gas emissions future.

The decision to introduce an emissions trading scheme is on the right side of the good sense/nonsense ledger. But it is a big deal that will take some serious digestion. It’s a triple Mylanta moment for the country. Climate Change Minister Penny Wong is right when she likens it to the big tariff reforms of the 1980s in terms of economic significance. So is Productivity Commission Chair Gary Banks when he describes it as the biggest regulatory challenge Australia has ever faced. It is the sensible policy option. But it would be nonsensical to rush it.

Unlike the tariff reforms of the 1980s, an emissions trading scheme introduced ahead of a global agreement will harm, not benefit our most competitive exporters. That is especially the case in the minerals sector where our competitors are mostly from developing nations. So we must adopt a measured transition to a more full-throated version when (we trust) other countries will come on board. Such a transition will help avoid an unwelcome economic shock. In practice, this will mean a phased approach to the full auctioning of permits, a price cap in the early stages to avoid overheating the market, and realistic interim targets.

We must calibrate our emissions trading scheme with the development of alternate low emissions technologies. A price signal without such technologies is just a punitive tax not a market mechanism. That’s why the minerals sector is keen to work with the Government and other sectors, including the renewable sector, to develop a national low emissions technology strategy. The minerals sector is ready to play its part - the Australian coal sector will invest \$1 billion over the next decade to develop and demonstrate clean coal technologies.

We also have to make sure we don’t get too far ahead of the international action too fast. Even if Australia disappeared off the face of the Earth by 2030, our carbon footprint would be filled by just one country, China, in less than 3 weeks. We should

also learn from others. While Europe's emissions trading scheme will not be auctioning most of its permits until around its 10th year of operation, the signals from Canberra suggest Australia's scheme will do that from Day 1. Is that really a measured transition?

A critical challenge for Government will be its 2020 target, the scale of which will be a key driver of the price of permits. If we try to achieve the unachievable, a sensible policy undulates toward a nonsensical one. We must not simply adopt European targets. Identical targets don't mean identical sacrifice. Our respective economies are like chalk and cheese. Or coal and camembert. We export different things. Moreover, our economy is growing strongly, and our population expanding rapidly. Theirs is slowing and falling. The simple reality is that it will be harder for Australia to get its emissions back to parity with 1990 levels than it will be for the EU to reduce their emissions to 20 per cent below their 1990 levels.

To its credit, the Rudd Government is trying hard to narrow the current wide gap between unreasonable expectations and reality. But this effort is not helped by the fact that its own pre-election climate change policy commitments oscillate between the plausible and the contradictory. On the one hand, the Government argues that its emissions trading scheme will direct investment to least cost abatement. On the other hand, a parallel renewable energy target will require that a certain amount of investment in energy generation be derived from renewable sources, irrespective of cost. Such undulations are not helpful.

Last week a visiting European official responsible for emissions trading had some sage advice. Proceed cautiously. We agree. Let's lead, but not get too far ahead of the pack. If we act hastily and the economic consequences are severe, no-one will follow our example. Bagehot's lesson is a similar one. Even the sharpest minds can stray from the sensible.