event transcript

CEDA
COMMITTEE FOR ECONOMIC DEVELOPMENT OF AUSTRALIA

Climate Change:
The business case for early action

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Thank you very much Catherine and just a very warm welcome on behalf of the round table. This is a very well attended lunch and one of the things that we really are desperate to do is to raise the profile of the whole need for early action on climate change.

And I guess if I can just start by saying what is the round table and why is it? It's an unusual group. It's a very diverse group of companies – it's always nice to have a good start to the sessions [laughter]. A very diverse group of companies and also in association with the Australian Conservation Foundation. The genesis of this started quite a number of years ago when our prep foundation was discussing the way forward with the OCF and Richard Pratt actually put in some seed money and after that a lot of discussion was taking place with a number of potentially interested businesses and I think the really important issue here is that a group of quite diverse companies, BP Australia, Insurance Australia Group, Origin Energy, Swiss Re, Westpac and ourselves saw enough of a need to get together. Now I've got to say this had been going on for about three years and that group didn't come together with any preconceived outcomes. It really came together, in fact there was quite a degree of scepticism amongst the various groups at the start as to what could be achieved and how it could be achieved, but the actual outcome we think is one which is very compelling and very pressing.

What is the round table trying to do? It's trying to really put a range of views together to understand what the real business and economic case is. One does understand what the science is telling us about climate change, not just for Australia obviously but beyond and really try to focus on reducing business risk. Everyone in business is a risk manager and none of us like to deal with circumstances which we can't really get our hands around and are beyond our control and so the reducing business risk is a fundamental plank of what we're on about. And also attempting to having understood that, manage those challenges and opportunities.

And I guess why we think it's a business issue. There's been a lot of debate and a lot of discussion about global warming and climate change but our investment horizons go well beyond 2012 or any of the other predetermined goals that have been set in terms of reduction of greenhouse gas and dealing with emissions. Typically a major project takes several years to a decade to conceive and quite often when we invest a lot of money, we're looking at a 25 to 30 year economic life and the biggest issue that we see is there is so much uncertainty that it's very difficult to make prime decisions and if we are going to get real change in the energy cycle we have to make some fundamental decisions. It's very hard to do that when there is so much uncertainty.

I guess why would someone from Visy stand up and say this is an important thing to us so I think putting it into context is fairly relevant. We deal across the country and in New Zealand with a wide range of agriculture and food and beverage customs. That's 70% of our turnover of about two and half billion dollars is tied up with agriculture or the or the products derived from that and we are already seeing implications of that. We also have a long-standing corporate commitment to good environmental practice. We I mean we know are well known for recycling. Probably it's not well understood but we collect each year about one and a third million tonnes of waste paper which we convert into about a million tonnes of manufactured paper. That in the net lifestyle analysis saves this country about two million tonnes of greenhouse gas, that on the net analysis, so we think we've got if you a like a stake at the table.

We're also very heavily involved in future investment. On the slide there you'll see a little country facility called the Tumut Craft and Paper Mill. That's a $500 million investment and we're shortly making a decision to spend another $400 million on that site. In doing that, we have to know where we're going in terms of conscious energy cost but the future input in terms of water and energy and all of the other manufacturing inputs and we have to have a longer term framework from which to judge those make those judgments. And just in terms of that, that facility already is using 20% only of the water that a normal pulp and paper mill uses so I guess we try to put our money where our mouth is. PT is your bottle there, is the lightest PT bottle in the world so a lot of companies have to do other things than just deal with the energy issue per say. They've got to make some very fundamental changes to what they do.

The big message today from the panel is we need more policy certainty to achieve long term investment to really change the game. You've got and hopefully you'll give a lot of attention post the lunch the report which the round table has developed over a number of years and that synthesises some very important work which was done initially and commissioned by the round table to the CSIRO and also Allan Consulting and that synthesises really the case that we're putting together and the arguments which we're trying to bring to everyone's attention. We want to make the point that none of this is not contestable. This is an issue on which everyone rightly has an opinion and no-one knows all the answers but we think it's time that a group as I said earlier of diverse companies is prepared to work together to at least present what we think is a very substantial case and really mount a case that we should turn a lot of the dialog from a whole lot of noise into a more focussed way forward.

I'm not going to go into the detail but ah in that report you've got some very chilling information in terms of what changes in temperature and other issues do in terms of the impact on the environment, impact on business and impact on the way we conduct our lives.

I'd like to talk about an extreme weather event. Now, this is not meant to say that Cyclone Larry which cost this economy north of

$1 billion was caused by the greenhouse gas situation or climate change but this is an example of a recent extreme event which occurred in this country. Amongst other things that event wiped out all of the banana crop and I guess people who like any bananas don't like paying $8 a kilo in the retailers for for what few bananas are still left. [laughter] There is good news, the good news is that come November December, there will be plenty of new bananas on the shelves and in the normal cycle of the horticulture industry there will be too many so I think the price will come down substantially. But that one event cost a company like Visy which is only one of many people who operate in that area, $20 million in it's revenue. That event was a category 5 cyclone and the last time Australia lost it's banana crop was 20 years ago. I think the cyclone was called Winifred. This year, we haven't had one category 5 cycle move through North Queensland, we had two. Five weeks after Larry another cyclone thankfully went through further north, it clipped right through Cape York. It didn't hit any sizeable townships or any sizeable agricultural producing areas but we had two category 5 events in a short space of time. Now that is an example of the sort of resilience, the sort of things that are going to happen and we need to be able to respond to coming into the future if we don't change sooner and we don't really address this issue as a community.

Now the approach of the round table was to try to take a lot of the noise out of the situation and say can we have a responsible, reliable entity really research what the likely impacts of climate change [cough] excuse me, are in this country and we went to CSIRO to undertake that research. Having determined that, we then asked the Allan Consulting Group to do two things. Firstly to say what will it cost Australia to substantially reduce it's greenhouse gas emissions as part of an overall international response and secondly, look at two trajectories. The overall scenario that that people are advocating for example is to take the 2,000 emissions and to reduce those by 60% by 2050. The two trajectories that the Allan Consulting Group looked on our behalf for was to adopt an early action to for Australians who reduce it's ah greenhouse gas emissions starting in 2013 and secondly, delaying significant action to 2022 and in your report you will see the effects of those two different cycles. Now basically CSIRO pointed a number of things. Firstly, this country is particularly

vulnerable to climate change. We all know that we are a very dry continent and we eke out every little bit of water that we can and the message is that's going to get harder to do. Another sobering message is that two industries which will be radically affected by relatively small progressive lifts in temperature will be our tourism industry and our agricultural industries and again in the report the specifics are covered pretty adequately and I won't go into the details but there's a whole lot of impacts there in terms of what moderate increases in temperature do to reducing precipitation due to increasing the likelihood of drought which we're already well familiar with and also raising sea level.

Turning to the sort of the business and economic scenario. What we found is that the longer we delay the more expensive it becomes and the other issue about that is if we delay too long to make decisions, there's going to be a much bigger disruptive effect. The coming back to an earlier point, one of the real concerns is that deciding to do something substantial to move from a relatively high emission energy source to a low energy emission energy source doesn't happen in five minutes. There are alternatives, some are still in development. Some still need a lot of research done. Once you make the decision to do it, it's usually several years before those new energy production units are actually in place. So we're talking about a situation where if we take year after year after year to really come to grips to say what are the solutions, will still be many decades before we get the result so the early action is really a call to arms to say why take too long to really focus on the issue. There is enough science and enough economic analysis to say smart people in business, the smart people in government, the smart people in the community really need to treat this as high item on the agenda and really need to start to put a framework together. That's really what we're saying and one of the big issues that we face in this country is that we have so many government jurisdictions and so many regulations and so many different agendas. This is too important an issue to have the issue debate by six state governments and a couple of territories and one national government. We need to be able to bring that together. That's very hard and like water, it takes a long time to get a water policy. It will probably take at least that time to an energy policy.

The recommendations from the round table. A move on three fronts. The first one, and we make no apologies for the statement, we want to design a long loud and legal framework. To establish a carbon price signal to deliver cost effective emission reductions and I liken this very much to water. We will never really achieve the optimum policy on water as we won't with a low emission energy source unless we have the right economic pricing signals and like water, we need to have an economic signal. Now we can debate all day and beyond about how that signal should operate and what it should be but in terms of energy, a carbon pricing signal of some form has to be developed and that's what the round table is advocating.

Secondly, the recommendation is to immediately foster development of the emerging and breakthrough technologies. To deliver these deeper cu-cuts to the future. A lot of these technologies are not fully proven. Quite a few of them are not economic at the moment and certainly very few companies or authorities are going to have the courage to develop and spend a lot of money in those technologies until there is clear policy framework and unless there is a clear economic argument to do so and I've said earlier, these things take a long time to put together.

And I guess the third one is by raising the profile of this very important issue. We need to build national resilience because there are going to be adverse changes and these adverse changes are not just confined to an economic or a business response. They are very human in nature and they're also going to affect a lot of our environment and they are going to affect a lot of the flora and fauna in this country and beyond so we need to build that resilience in terms of what we do for the future.

So coming to the conclusions and you'll see in the report, this country is very vulnerable to the impact of climate change. We believe and we can certainly have this challenged and discussed by the expert panel shortly that acting early is affordable and it also builds flexibility in how the country moves forward and delaying action when you take the debatable but certainly well researched report from Allan's, says that it's more costly actually to the country to delay and there will be a bigger disruptive shock.

So if we act early Australia can afford the policies needed to achieve these deep cuts.

What we're after is a collaborative approach. Business and government should be able to start to debate and to work together and just as I said earlier, we are after a nationally consistent policy on climate change. We must get support from all of the government jurisdictions. And thirdly, like water, energy change needs a strong pricing signal. And lastly, again to emphasise business decisions need policy certainty to develop the time and the money and the resourcing to develop a low emission energy projects. They take time.

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