



**Office of the Secretary**

6 April 2009

Professor James Hansen  
Columbia University  
750 Armstrong Hall  
2880 Broadway  
New York, NY 10025 USA

Dear Professor Hansen

**AUSTRALIA'S RESPONSE TO CLIMATE CHANGE**

I have noted with interest your open letter of 29 December 2008 to President Obama regarding policy proposals to combat the global threat of climate change, and your subsequent comments reported in the Observer on 15 February 2009. In light of the significance of the points you have raised, I am taking the opportunity to provide some observations from an Australian policy perspective.

I would first like to applaud your determination to ensure climate policy is informed by the science.

The Australian Government is committed to addressing the challenge of climate change nationally and to contributing to a global solution, and has publicly stated that fair and effective global action to stabilise greenhouse gas concentrations at 450ppm or lower is in our national interest. We strongly agree with you that climate change requires urgent and significant changes in human activity, and support the general goals that underlie your open letter. This is why the Australian Government is putting a price on carbon and committing to significant reductions in Australia's greenhouse gas emissions.

In your letter, you stress the importance of introducing a rising carbon price to drive the necessary reductions in emissions; call for a moratorium on new, and the phase out of existing, coal-fired electricity generation that does not capture and store carbon dioxide; and emphasise the importance of research into next generation energy technologies.

The Australian Government agrees that a rising forward carbon price is an essential part of effective and efficient national and global responses to climate change. We do not accept, however, that a carbon tax will be the best mechanism to deliver such a price in all countries and circumstances. In particular, we consider that a cap and trade scheme with substantial auctioning of permits delivers all the benefits of the 'tax and 100% dividend' approach you outline and, more generally, that well designed quantity-based approaches have some significant advantages over price-based approaches. For example, robust quantity-based approaches can achieve specified emissions reductions with a high degree of certainty, whereas the quantity of emissions reduction will be uncertain under price-based approaches. Quantity-based approaches that involve the creation of new property rights (emission permits) will generally provide greater security and improved risk management for firms and market participants than a tax or administratively set prices. They also allow for price



discovery and are able to signal expected medium and long-term carbon prices (such as through futures and options markets). These expectations about future prices are central to current investment decisions.

In contrast, I am unaware of instances where countries have committed to, and delivered, a program of progressively rising tax rates. Finally, it is not clear that a price-based approach is more capable of achieving the political mandate required to deliver the ambitious emissions reductions called for by the science, over the long run. Indeed, the need to establish new carbon tax rates, possibly annually, is likely to reduce business certainty about the future direction of carbon prices, thereby inhibiting desired behavioural responses.

The Australian Government has announced that the Carbon Pollution Reduction Scheme (CPRS), an emissions trading scheme, will form the centrepiece of its domestic emissions reduction policy. This is a historic reform, which will create a visible, rising carbon price for Australia, driving emissions reductions and transforming the Australian economy over time. As part of this policy, announced in the CPRS White Paper on 15 December 2008, the Australian Government has chosen to return 100 per cent of auction permit revenues to Australian households and businesses through a series of targeted initiatives designed to protect consumers – especially low and medium income households – and to assist businesses with the transition to a low emissions economy.

On carbon capture and storage, the Australian Government agrees that achieving ambitious reductions in global emissions will require a transformation of the global energy system, including a rapid shift away from construction of coal-fired electricity generation plants without carbon capture and storage. Consistent with this, the Australian Government's modelling indicates that the expected carbon price arising under the CPRS is likely to result in no new coal-fired electricity generation plants being built in Australia without carbon capture and storage once the CPRS is in place.

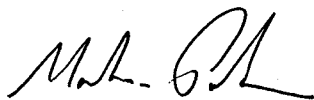
On energy technology research, the Australian Government agrees with you that ambitious global action on climate change requires urgent and substantial support for low or zero emissions energy technologies that move beyond incremental improvements. The Australian Government has committed over \$1.5 billion to support research, development and deployment of renewable energy and effective carbon capture and storage technologies. This includes \$100 million annually to the establishment of a Global Carbon Capture and Storage Institute to support the development and deployment of large-scale CCS technologies. We are also supporting renewable energy through a new stronger national Renewable Energy Target, which will see 20 per cent of Australia's total electricity needs in 2020 provided by renewable generation.

In conclusion, I note that the Australian Government has announced a mid-term target range of a 5-15 per cent reduction in emissions from 2000 levels by 2020. This represents a reduction of up to 22 percentage points from our agreed international commitment for the Kyoto period (2008-2012) and constitutes a reduction of up to 41 per cent in the per capita emissions of every Australian relative to 1990 levels, and is on par with those countries that have also adopted or proposed long-term targets. While we consider this a serious and credible contribution to a long-term global solution, we agree that the science calls for deeper cuts over time. Australia stands ready to increase its efforts as part of a fair and effective global agreement, and Prime Minister Rudd has indicated our willingness to

reconsider the existing 2050 target of a 60 percent reduction from 2000 levels, if this is required for us to play our full and fair part.

Thank you, on behalf of the Australian Government, for your important contributions to ensuring that the world responds to the challenge of climate change.

Yours sincerely

A handwritten signature in black ink, appearing to read 'M. Parkinson', written in a cursive style.

Martin Parkinson  
Secretary

