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## **TODAY'S ECONOMY – KEY CHALLENGES, ISSUES AND OPPORTUNITIES**

### **INTRODUCTION**

LADIES AND GENTLEMEN, THANK YOU FOR THE INVITATION TO THE TRANS TASMAN BUSINESS CIRCLE.

I AM A KEEN AFL SUPPORTER, SO MY REMARKS TODAY WILL OMIT THE TRADITIONAL BAITING COMMENTS ABOUT OUR RESPECTIVE RUGBY TEAMS – THE WALLABIES AND THE ALL BLACKS.

TODAY, MY MESSAGE IS SERIOUS, BECAUSE TODAY'S ECONOMIC AND ENVIRONMENTAL CHALLENGES ARE UNPRECEDENTED.

AUSTRALIA AND NEW ZEALAND ARE EQUALLY EMBROILED IN THE GLOBAL ECONOMIC CRISIS. THE GOVERNMENTS OF BOTH COUNTRIES HAVE TAKEN CLEAR BUT DISTINCT ACTION TO PROTECT THEIR NATIONAL ECONOMIES. AND MORE MAY BE NEEDED.

TWENTY-SIX YEARS AFTER THE SIGNING OF THE CLOSER ECONOMIC RELATIONS TREATY (CER), THE NEED FOR BOTH COUNTRIES TO PROTECT OUR ECONOMIC PROSPERITY [AND OUR ENVIRONMENT] HAS NEVER BEEN GREATER.

TO ACHIEVE THIS, WE MUST HARMONISE OUR RESPONSE STRATEGIES AND ENSURE BOTH COUNTRIES HAVE THE BEST POSSIBLE POLICY SETTINGS FOR INVESTMENT AND JOB CREATION.

IN THAT LIGHT, TODAY I WANT TO TALK ABOUT TWO CRITICAL POLICY AREAS - FOREIGN INVESTMENT AND CLIMATE CHANGE POLICY.

### **AUSTRALIA AND THE DOWNTURN**

IN RECENT TIMES THE PUBLIC POLICY DEBATE HAS, APPROPRIATELY, BEEN FOCUSED ON FISCAL AND MONETARY POLICY RESPONSES TO THE GLOBAL ECONOMIC DOWNTURN.

GOVERNMENTS AROUND THE WORLD HAVE MOVED TO STIMULATE THEIR ECONOMIES AND **IMPORTANTLY** TO RESIST CALLS FOR PROTECTIONISM.

IN THIS CONTEXT THERE IS BROAD AGREEMENT THAT AUSTRALIA IS BETTER PLACED TO WEATHER THE DOWNTURN THAN MOST DEVELOPED ECONOMIES BECAUSE:

1. WE HAVE ENTERED THE SLOWDOWN LATER THAN MOST COUNTRIES
2. WE **HAD** SUBSTANTIAL BUDGET SURPLUSES GIVING THE AUSTRALIAN GOVERNMENT MORE FLEXIBILITY TO IMPLEMENT STIMULUS PACKAGES
3. OUR FINANCIAL SYSTEM IS WELL REGULATED AND OUR BANKS ARE IN FAR BETTER SHAPE THAN MOST DEVELOPED COUNTRIES
4. WE HAVE HAD CONSIDERABLE ROOM TO MOVE ON MONETARY POLICY **AND** THE SIGNIFICANT REDUCTION IN INTEREST RATES HAS BEEN TRANSMITTED TO HOUSEHOLDS MORE EFFICIENTLY THAN IN MOST OTHER COUNTRIES
5. WE ARE LIKELY TO BE AN EARLY BENEFICIARY OF ANY UPTURN IN CHINA'S GROWTH, WITH OUR TERMS OF TRADE LIKELY TO STILL BE ABOVE THE LONG TERM AVERAGE.

NEVERTHELESS THERE IS GENERAL AGREEMENT THAT AUSTRALIA IS IN RECESSION AND THAT UNEMPLOYMENT WILL GET CONSIDERABLY WORSE.

NEW ZEALAND SHARES SOME, BUT NOT ALL, OF THESE POSITIVE FACTORS AND IS ALSO IN RECESSION.

### **NEW ZEALAND AND THE DOWNTURN**

THE ECONOMIC RELATIONSHIP BETWEEN AUSTRALIA AND NEW ZEALAND IS ONE OF THE CLOSEST AND MOST INTEGRATED ANYWHERE IN THE WORLD.

NEW ZEALAND IS AUSTRALIA'S SIXTH LARGEST EXPORT MARKET, WHILE AUSTRALIA IS NEW ZEALAND'S LARGEST.

LAST YEAR WAS, OF COURSE, THE TWENTIETH-FIFTH ANNIVERSARY OF THE CLOSER ECONOMIC RELATIONS TREATY (CER) BETWEEN AUSTRALIA AND NEW ZEALAND.

IN MANY WAYS, THIS AGREEMENT IS SEEN AS A MODEL FOR OTHER FREE TRADE AGREEMENTS.

IT IS A COMPREHENSIVE AGREEMENT, WHICH INCLUDES FREE TRADE IN GOODS AND SERVICES, WIDESPREAD HARMONISATION OF BUSINESS REGULATION, MUTUAL RECOGNITION OF OCCUPATIONAL QUALIFICATIONS AND FREE MOVEMENT OF PEOPLE.

FURTHER IMPROVEMENTS ARE CURRENTLY BEING CONSIDERED BY THE TWO GOVERNMENTS IN AREAS SUCH AS TAX AND INVESTMENT BARRIERS, AND MOVEMENT OF PENSION SAVINGS.

GIVEN THE DEGREE OF INTEGRATION BETWEEN THE TWO ECONOMIES, STRONG AND SUSTAINED ECONOMIC GROWTH ON BOTH SIDES OF THE TASMAN IS MUTUALLY BENEFICIAL. BUT WHEN ONE COUNTRY'S GROWTH SLOWS FASTER THAN THE OTHER, SUCH A SLOWDOWN CAN, EVENTUALLY, AFFECT BOTH COUNTRIES.

NEW ZEALAND ENTERED THE CURRENT ECONOMIC DOWNTURN EARLIER, AND HAS SEEN GROWTH FALL FURTHER, THAN AUSTRALIA.

NEW ZEALAND GDP CONTRACTED IN EACH QUARTER OF 2008. SURVEYS OF BUSINESS CONDITIONS AND CONSUMER CONFIDENCE INDICATE ANOTHER SIGNIFICANT CONTRACTION IS LIKELY IN THE MARCH QUARTER.

BY CONTRAST, AUSTRALIA'S GDP ROSE FOR THE FIRST THREE QUARTERS OF 2008 BEFORE FALLING IN THE DECEMBER QUARTER. AND THERE WILL BE FURTHER CONTRACTION IN THE MARCH QUARTER.

IMF FORECASTS FOR GDP IN 2009 SHOW A DECLINE OF 1.4% FOR AUSTRALIA BUT A 2% DECLINE FOR NEW ZEALAND.

AND FINALLY, THE NEW ZEALAND ECONOMY IS NOT EXPECTED TO EXPAND UNTIL THE SECOND HALF OF 2009 AND IS FORECAST TO RECOVER A LITTLE LESS STRONGLY THAN AUSTRALIA.

### **HISTORICAL COMPARISON**

AUSTRALIAN GOVERNMENTS HAVE TENDED TO USE PER CAPITA INCOME OR GDP PER CAPITA AS A LONG TERM MEASURE OF AUSTRALIA'S RELATIVE ECONOMIC PERFORMANCE.

IN 1991, AUSTRALIA'S INCOME PER CAPITA HAD FALLEN TO 19<sup>TH</sup> PLACE GLOBALLY. THROUGH A COMBINATION OF REFORMS BEGUN BY THE HAWKE-KEATING GOVERNMENTS AND REINFORCED BY THE HOWARD GOVERNMENT, AUSTRALIA'S INCOME PER CAPITA IS NOW THE EIGHTH HIGHEST IN THE WORLD.

BY 2007, AUSTRALIA'S PER CAPITA GDP WAS ALMOST ONE-THIRD HIGHER THAN NEW ZEALAND'S – THE EQUIVALENT OF NZ\$48,000 PER HEAD COMPARED TO NZ\$36,400.

YET UNTIL THE 1970S, BOTH COUNTRIES ENJOYED COMPARABLE LEVELS OF INCOME.

A NUMBER OF ANALYSTS HAVE SOUGHT TO EXPLAIN THIS DISPARITY. ON THE SURFACE, THE TWO ECONOMIES HAVE MANY SIMILARITIES.

BOTH UNDERTOOK SIGNIFICANT ECONOMIC REFORMS IN THE 1980S AND 1990S. BOTH COUNTRIES ARE RELATIVELY ISOLATED AND A LONG WAY FROM KEY EXPORT MARKETS. AND BOTH ARE SIGNIFICANT EXPORTERS – AUSTRALIA OF RESOURCES AND AGRICULTURAL PRODUCTS AND NEW ZEALAND OF AGRICULTURAL PRODUCTS.

SO WHY THE STARK DIFFERENCE IN ECONOMIC PERFORMANCE OVER RECENT DECADES?

THE RESOURCES BOOM OFFERS ONLY A PARTIAL EXPLANATION. ALTHOUGH THE BOOM BOOSTED NATIONAL INCOME IN AUSTRALIA, IT ONLY BEGAN IN EARNEST IN

THE EARLY 2000s, WELL AFTER THE TWO COUNTRIES' INCOMES BEGAN TO DIVERGE.

ONE OF THE KEY DIFFERENCES BETWEEN THE TWO COUNTRIES IS TAX. AUSTRALIA HAS A LOWER OVERALL TAX BURDEN THAN NEW ZEALAND, WITH AUSTRALIANS PAYING A TOTAL OF 31% OF GDP IN TAX WHILE NEW ZEALANDERS PAY 38% OF GDP. THIS UNDOUBTEDLY AFFECTS INCENTIVES TO WORK, SAVE AND INVEST.

ALLOW ME TO QUOTE FROM THE NEW ZEALAND INSTITUTE OF ECONOMIC RESEARCH (NZIER):

"WHILE MANY COMMENTATORS BELIEVE THAT AUSTRALIA IS A LUCKY COUNTRY, THE OECD (2006) ARGUES THAT IT HAS "MADE ITS OWN LUCK" THROUGH A SERIES OF STRUCTURAL REFORMS AND THE INTRODUCTION OF A SOUND MACROECONOMIC FRAMEWORK, WHICH HAVE STRENGTHENED ITS RESILIENCE TO ECONOMIC DOWNTURNS.

IT FURTHER SAYS: "THERE IS NO REASON WHY NEW ZEALAND CAN'T ALSO MAKE ITS OWN LUCK. IN A RECENT STUDY ON THE INCOME DIFFERENTIAL BETWEEN NEW ZEALAND AND AUSTRALIA, THE INSTITUTE STRESSES THE IMPORTANCE OF A FREER MARKET, FREER TRADE AND A BETTER REGULATORY ENVIRONMENT, TO ACHIEVE GROWTH.

THE INSTITUTE CONTINUES: "CATCHING UP WITH AUSTRALIA IS NOT IMPOSSIBLE, BUT VERY UNLIKELY WITHOUT MAJOR CHANGES TO NEW ZEALAND'S POLICY DIRECTIONS. THE CHALLENGE IS FOR ITS POLICY MAKERS TO PUT FORWARD SENSIBLE POLICIES AND TO CARRY THEM THROUGH TO FRUITION IN THE YEARS TO COME."<sup>1</sup>

THE INSTITUTE CONCLUDES:

"AN ESSENTIAL ELEMENT OF SUCH A STRATEGY FOR NEW ZEALAND SHOULD BE TO ELIMINATE OBSTACLES TO INVESTMENT AND THE ASSOCIATED TRANSFER OF TECHNOLOGY. AS A SMALL ECONOMY, NEW ZEALAND RISKS BEING PASSED OVER BY INVESTORS UNLESS IT HAS A COMPREHENSIBLE AND CONGENIAL REGULATORY REGIME IN WHICH INVESTORS CAN HAVE CONFIDENCE. THE REGULATORY REGIME MUST BE SIMPLE, STABLE AND FREE FROM POLITICAL OPPORTUNISM."<sup>2</sup>

### **NZS AND OVERSEAS INVESTMENT OFFICE (OIO) DECISION**

I AGREE WITH THAT CONCLUSION. PARTICULARLY BECAUSE OBSTACLES TO INVESTMENT ARE DIRECTLY RELEVANT TO BLUESCOPE STEEL.

BLUESCOPE HAS A SIGNIFICANT PRESENCE IN NEW ZEALAND.

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<sup>1</sup> NZIER, 'When Will New Zealand Catch Up With Australia?', September 2008

<sup>2</sup> NZIER, 'The New Zealand – Australian Income Differential', 2006

OUR NEW ZEALAND STEEL BUSINESS UNDERPINS 4,800 DIRECT AND INDIRECT JOBS AND CONTRIBUTES ALMOST \$2 BILLION TO THE NATIONAL ECONOMY.

WE ARE THE BIGGEST SINGLE SITE EMPLOYER IN NEW ZEALAND – DIRECTLY EMPLOYING 1,200 PEOPLE - AND THE AVERAGE WAGE AT NEW ZEALAND STEEL IS NZ\$91,000 – ABOUT DOUBLE THE NATIONAL AVERAGE.

WE ALSO EXPORT OVER NZ\$300 MILLION PER ANNUM.

DESPITE THIS, BLUESCOPE STEEL HAD ITS OWN TASTE OF INVESTMENT POLICY UNCERTAINTY IN NEW ZEALAND LATE LAST YEAR.

IN DECEMBER 2008, THE NEW ZEALAND OVERSEAS INVESTMENT OFFICE (OIO) REJECTED THE SALE OF THE COMPANY'S TAHAROA IRON SANDS MINE.

BLUESCOPE WAS, FRANKLY, ASTOUNDED AND VERY DISAPPOINTED BY THIS DECISION. IT SEEMED HIGHLY UNUSUAL GIVEN THE TRANSACTION WAS SIMPLY A SALE OF AN ASSET BY ONE FOREIGN COMPANY TO ANOTHER – FROM BLUESCOPE TO CKI OF HONG KONG.

THIS DECISION BROUGHT INTO SHARP FOCUS THE CONCEPT OF A 'STRANDED ASSET'. THIS OCCURS WHERE A FOREIGN INVESTOR IN NEW ZEALAND IS UNABLE TO ON-SELL AN ASSET TO A CREDIBLE BUYER, WITHOUT FIRST DEMONSTRATING AN ADDITIONAL BENEFIT TO NEW ZEALAND, AS REQUIRED BY THE OVERSEAS INVESTMENT ACT.

WE BELIEVE NEW ZEALAND WILL BECOME A VERY UNATTRACTIVE INVESTMENT DESTINATION IF INVESTMENTS AND ASSETS BECOME TRAPPED BY THIS ADDITIONAL BENEFIT RULE.

IN THIS CONTEXT, WE WELCOME THE RECENTLY ANNOUNCED REVIEW OF THE OVERSEAS INVESTMENT ACT BY THE NEW ZEALAND GOVERNMENT. THIS ISSUE MUST BE ADDRESSED AND CHANGES MADE IF THE REVIEW'S OBJECTIVE OF CREATING "AN OVERSEAS INVESTMENT REGIME THAT PROMOTES AND ENCOURAGES THE FLOW OF INVESTMENT INTO NEW ZEALAND" IS TO BE ACHIEVED.

WE CERTAINLY AGREE WITH DEPUTY PRIME MINISTER AND FINANCE MINISTER BILL ENGLISH'S RECENT COMMENT THAT: "IN THE CURRENT ECONOMIC SITUATION, ACCESS TO FOREIGN CAPITAL IS PARTICULARLY IMPORTANT FOR NEW ZEALAND FIRMS".

HE WENT ON; "WE ALSO BELIEVE THAT, BEYOND THE RECESSION, OVERSEAS INVESTMENT WILL MAKE AN IMPORTANT CONTRIBUTION TO NEW ZEALAND'S ECONOMIC GROWTH IN THE LONGER TERM".

FROM A BLUESCOPE STEEL PERSPECTIVE, CHANGES TO NEW ZEALAND FOREIGN INVESTMENT POLICY ARE EXTREMELY IMPORTANT TO THE LONG TERM VIABILITY OF OUR NEW ZEALAND STEEL BUSINESS.

EQUALLY IMPORTANTLY, A FAVOURABLE FOREIGN INVESTMENT CLIMATE IS IMPORTANT FOR BOTH COUNTRIES' PROSPERITY.

### **EMISSIONS TRADING SCHEMES**

I NOW WANT TO MAKE SOME BRIEF COMMENTS ABOUT CLIMATE CHANGE POLICY AND THE TWO COUNTRIES' PROPOSED EMISSIONS TRADING SCHEMES.

IN A RECENT SPEECH TO THE AUSTRALIAN INSTITUTE OF COMPANY DIRECTORS IN BRISBANE, I SAID THAT WE HAD GRAVE CONCERNS THAT THE AUSTRALIAN GOVERNMENT'S CARBON POLLUTION REDUCTION SCHEME WOULD PUT AT RISK THE LONG-TERM VIABILITY OF SIGNIFICANT SECTIONS OF AUSTRALIAN INDUSTRY, INCLUDING THE AUSTRALIAN STEEL INDUSTRY.

WHILE AUSTRALIA IS A COMPETITIVE AND EFFICIENT PLACE TO MAKE STEEL, AND AUSTRALIAN STEELMAKERS ARE VERY COMPETITIVE ON THE WORLD COST CURVE, IT MUST BE STRESSED THAT WE ARE A SMALL PRODUCER BY GLOBAL STANDARDS – ABOUT 0.6% OF GLOBAL STEEL PRODUCTION.

COUNTRIES SUCH AS THE 'BRICS' (BRAZIL, RUSSIA, INDIA AND CHINA) PRODUCE HALF THE WORLD'S STEEL, AND IMPORTANTLY DO NOT IMPOSE CARBON COSTS ON THEIR STEEL INDUSTRIES AND HAVE NO PLANS TO DO SO IN THE FORESEEABLE FUTURE.

UNTIL OTHER COUNTRIES INTRODUCE COMPARABLE CARBON COSTS ON THEIR STEEL INDUSTRIES, IMPOSING A CARBON COST ON THE STEEL INDUSTRY IN AUSTRALIA OR NEW ZEALAND WILL SIMPLY MAKE OUR STEELMAKERS LESS COMPETITIVE, OPENING THE DOOR TO MORE IMPORTS.

LAST WEEK THE AUSTRALIAN GOVERNMENT ANNOUNCED A NUMBER OF CHANGES TO THE CPRS, INCLUDING A ONE-YEAR DELAY IN THE COMMENCEMENT OF THE SCHEME, A PRICE CAP OF A\$10 PER PERMIT IN THE FIRST YEAR, AND HIGHER ASSISTANCE FOR EMISSIONS INTENSIVE TRADE EXPOSED (EITE) INDUSTRIES.

THESE ARE WELCOME IMPROVEMENTS TO THE SCHEME, WHICH GO SOME WAY TOWARDS ADDRESSING OUR CONCERNS ABOUT THE IMPACT OF THE CPRS ON INDUSTRY COMPETITIVENESS AND INVESTMENT.

HOWEVER, THERE ARE STILL A NUMBER OF SIGNIFICANT OUTSTANDING ISSUES FOR BLUESCOPE STEEL, SOME OF WHICH WILL BE DEALT WITH IN REGULATIONS, (WHICH HAVE NOT YET BEEN RELEASED), RATHER THAN IN THE LEGISLATION, WHICH WAS INTRODUCED TO THE PARLIAMENT JUST YESTERDAY.

IT'S IMPORTANT THAT THE REGULATIONS ARE ALIGNED WITH THE GOVERNMENT'S STATED PRINCIPLES AND FULLY ADDRESS THE OUTSTANDING ISSUES.

WE ARE WORKING CONSTRUCTIVELY WITH THE AUSTRALIAN GOVERNMENT TO ADDRESS THESE ISSUES AND ARE HOPEFUL OF A SATISFACTORY OUTCOME.

CONSISTENT WITH THE CER TREATY, A MAJOR OBJECTIVE OF BOTH GOVERNMENTS SHOULD BE TO HARMONISE THE TWO COUNTRIES' EMISSIONS TRADING SCHEMES.

I NOTE THAT NEW ZEALAND'S PRIME MINISTER KEY, RECENTLY SAID THAT NEW ZEALAND MAY HAVE TO DELAY THE START OF ITS ETS IN LINE WITH THE DELAY IN THE INTRODUCTION OF THE AUSTRALIAN CPRS.

ONE OF OUR PRINCIPAL CONCERNS ABOUT THE AUSTRALIAN CPRS WAS THAT IT WOULD ERODE THE TRADE COMPETITIVENESS OF AUSTRALIAN INDUSTRY. IN THE SAME WAY, THE TWO GOVERNMENTS MUST MAKE SURE THAT THE TWO SCHEMES DO NOT UNNECESSARILY DISTORT THE RELATIVE COMPETITIVENESS OF INDUSTRY IN EACH COUNTRY BY ADOPTING DIFFERENT RULES FOR THE TREATMENT OF EITE INDUSTRIES.

THERE ARE, AT THE MOMENT, SOME SIGNIFICANT DIFFERENCES BETWEEN THE TWO SCHEMES.

FOR EXAMPLE, UNDER THE ETS LEGISLATION PASSED BY THE PREVIOUS NEW ZEALAND GOVERNMENT, EITE INDUSTRIES WOULD RECEIVE 90% FREE PERMITS UNTIL 2018 WITH NO REDUCTION IN ASSISTANCE UNTIL THEN.

IN AUSTRALIA, THERE IS AN ANNUAL REDUCTION IN ASSISTANCE OF 1.3% PROPOSED YEAR-ON-YEAR, AFTER THE FIRST YEAR.

THE NEW ZEALAND SCHEME ALSO CURRENTLY HAS A MORE EXPANSIVE DEFINITION OF THE PARTICULAR STEELMAKING ACTIVITIES THAT WILL RECEIVE EITE ASSISTANCE.

THESE DISPARITIES NEED TO BE ADDRESSED, IN A MANNER THAT MAINTAINS THE COMPETITIVENESS OF EITE INDUSTRIES IN BOTH COUNTRIES, AND DOES NOT INTRODUCE TRADE DISTORTIONS BETWEEN THE TWO COUNTRIES.

BLUESCOPE'S NEW ZEALAND STEEL BUSINESS HAS PARTICIPATED IN THE CURRENT NEW ZEALAND PARLIAMENTARY INQUIRY INTO ITS ETS. THE FINDINGS OF THIS INQUIRY, AND THE SUBSEQUENT ACTION TAKEN BY THE NEW ZEALAND GOVERNMENT, WILL BE CRITICAL TO THE ONGOING COMPETITIVENESS OF NEW ZEALAND INDUSTRY.

BOTH GOVERNMENTS ALSO MUST ENSURE THAT THE TREATMENT OF EITE INDUSTRIES IS – TO THE GREATEST EXTENT POSSIBLE WITHIN THE DESIGN OF EACH SCHEME – CONSISTENT WITH INTERNATIONAL EMISSIONS TRADING SCHEMES.

FOR EXAMPLE, THE EUROPEAN AND CANADIAN SCHEMES, AS WELL AS THE DRAFT US (WAXMAN) BILL ('*AMERICAN CLEAN ENERGY AND SECURITY ACT 2009*'), ALL CONTAIN EITHER MORE EXPANSIVE DEFINITIONS OF THE EITE STEELMAKING ACTIVITY THAN THE AUSTRALIAN SCHEME, OR SIMPLY EXCLUDE KEY PARTS OF THE STEELMAKING PROCESS FROM ANY LIABILITY, IN THE CASE OF THE EU SCHEME.

WITH AUSTRALIA PRODUCING ONLY 1.4 % OF THE WORLD'S CARBON DIOXIDE EMISSIONS, AND NEW ZEALAND ONLY 0.2%, THERE IS NO AUSTRALIAN OR NEW ZEALAND, OR INDEED COMBINED AUSTRALIA/NEW ZEALAND SOLUTION TO CLIMATE CHANGE.

ON THIS ISSUE OUR NATIONS SHOULD BE LEADERS IN PROMOTING THE NEED FOR CONCERTED ACTION WHILE DESIGNING SCHEMES THAT WILL WORK, AND THEN BE FAST FOLLOWERS IN IMPLEMENTATION.

IN FEBRUARY LAST YEAR (2008), THE AUSTRALIAN MINISTER FOR CLIMATE CHANGE AND WATER, SENATOR WONG, SAID IN A PUBLIC SPEECH THAT THE DESIGN OF AUSTRALIA'S EMISSIONS TRADING SCHEME:

“WILL ADDRESS THE COMPETITIVE CHALLENGES FACING EMISSION-INTENSIVE TRADE EXPOSED INDUSTRIES IN AUSTRALIA. THE INTRODUCTION OF A CARBON PRICE AHEAD OF EFFECTIVE INTERNATIONAL ACTION CAN LEAD TO PERVERSE INCENTIVES FOR SUCH INDUSTRIES TO RELOCATE OR SOURCE PRODUCTION OFFSHORE.”

THE MINISTER CONTINUED:

“THERE IS NO POINT IN IMPOSING A CARBON PRICE DOMESTICALLY WHICH RESULTS IN EMISSIONS AND PRODUCTION TRANSFERRING INTERNATIONALLY FOR NO ENVIRONMENTAL GAIN...”<sup>3</sup>

WE CONCUR WITH THIS STATEMENT WHOLEHEARTEDLY. IT IS A POSITIVE STEP FOR AUSTRALIA THAT WE NOW HAVE EXTRA TIME TO GET THE FOUNDATIONS OF THE SCHEME RIGHT.

BUT AT THE END OF THE DAY, THE EMISSIONS TRADING LEGISLATION AND ITS REGULATIONS IN BOTH COUNTRIES MUST:

- REDUCE GREENHOUSE GASES GLOBALLY WHILE
- MAINTAINING THE COMPETITIVENESS OF EMISSIONS INTENSIVE TRADE EXPOSED INDUSTRIES – ‘EITES’, AND
- LINKING THE SCHEME TO SIMILAR SCHEMES IN OTHER COUNTRIES

AND IT IS CRITICAL THAT THE AUSTRALIAN AND NEW ZEALAND GOVERNMENTS CONTINUE TO TEST THEIR DRAFT PROPOSALS AGAINST THESE PRINCIPLES.

## **CLOSING**

LADIES AND GENTLEMEN, OVER THE YEARS, THE STRATEGIC INTERESTS OF OUR TWO COUNTRIES HAVE BEEN STRONGLY ALIGNED.

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<sup>3</sup> *Climate Change: A Responsibility Agenda*, speech by Senator Hon Penny Wong, Minister for Climate Change and Water, to the Australian Industry Group, 6 February 2008



THE TOUGHEST TIMES CAN BRING OUT THE BEST IN PEOPLE AND IN THESE UNPRECEDENTED TOUGH TIMES THE CHALLENGE FOR AUSTRALIA AND NEW ZEALAND IS TO WORK TOWARDS GREATER HARMONY TO SECURE A MORE PROSPEROUS AND SUSTAINABLE FUTURE.

THANK YOU.