

The full text of Opposition Treasury spokesman Malcolm Turnbull's address to the prosperity conference.

On Wednesday I had the opportunity to speak to the Sydney Institute on the challenges of climate change and tax reform. It is great to be here speaking at the Melbourne Institute at the Economic and Social Outlook Conference to discuss the importance of tax reform and the opportunity presented by the introduction of an Emissions Trading System.

I have long advocated tax reform, lowering the burden of taxation generally, replacing inefficient taxes with efficient taxes, but also in flattening the structure of our income tax system.

In each year from 2003 to 2007 the Coalition provided substantial income tax relief.

And we are now rapidly moving towards the brave new world of emissions permit trading.

Labor did not oppose our 2006 tax cuts and at the last election after 11 ½ years in opposition it did not have any ideas of its own on tax. So it copied 92 per cent of the Coalition's election tax plan.

A vital difference between our Party and Labor is our approach to taxation.

So it was no wonder, that one of Mr Rudd's most breathtaking excursions into Orwellian doublespeak was when he said in Perth recently that for its eleven and a half years the Howard Government did not put forward a strategic vision for the tax system."

The tax reforms of the Howard Government, in particular the GST, were the most sweeping in any of our lifetimes. Mr Rudd described these reforms as a "fundamental injustice". Mr Swan went further and called the GST a "bastard tax" on at least three occasions.

Tax reform is like painting the Harbour Bridge - the task is never complete. And much more always needs to be done. Labor's tradition of opposing significant tax reform while in Opposition does not bode well for its future in Government.

The tax system should be designed and maintained to collect no more money than the Government needs, and it should do so fairly and efficiently.

As Adam Smith observed in his Inquiry into the Nature and Causes of the Wealth of Nations:

"Every tax ought to be so contrived as both to take out and keep out of the pockets of the people as little as possible, over and above what it brings into the public treasury of the state."

Tax compliance and administration should be easy and above all designed to minimise economic waste. Again, Adam Smith understood this in 1776 when he wrote:

"While (the tax) ... obliges the people to pay, it may thus diminish, or perhaps destroy, some of the funds which might enable them more easily to do so."

Our tax system today is a fairer and more efficient one than John Howard found it in 1996, but there is much more to be done.

We have many taxes which are highly inefficient, many at the State and Territory level.

Our income tax system, while much improved by the Coalition, remains complex. The Business Council of Australia's recent Tax Nation report, for example, found that there were 56 separate business taxes levied in Australia, including 21 federal, 33 state and territory and 2 local taxes. The BCA identified 182 separate taxing points.

Right at the very centre of our economy is the roughly 40 per cent of our GDP that is represented by Federal, State and Local public sector revenues. The manner in which that money is collected and then disbursed is vital to the strength and competitiveness of our economy.

On Wednesday I announced that Henry Ergas had agreed to assist us in a full review of our system of taxation - federal, state and local. We intend to consult widely and invite public submissions.

This brings me to the topic of climate change.

Let us restate the challenge.

The world's governments have now accepted that our growing emissions of CO₂ and similar greenhouse gases has caused the earth's climate to warm and that in order to avoid catastrophic climate change we must dramatically reduce our emissions of those gases.

This global objective which is both consistent with the science and growing in acceptance is a reduction of emissions by 2050 to a level equal to 50 per cent of global emissions in 1990. Note that this is much, much larger than cutting 2050 emissions to half their business as usual level. The Stern Review estimated this would amount to a reduction to 23 per cent of the business as usual level.

This will be a costly exercise. We will all be faced with consequences of climate change whatever reduced levels of emissions are achieved. That can be described as the cost of adaptation, some of it certainly unavoidable. In addition we will be faced with the costs of reducing emissions. That can be described as the costs of mitigation.

For Australia, an example of the cost of adaptation is the many desalination plants being built around our coast line, or the National Plan for Water Security - \$10 billion to secure the future of irrigated agriculture in a hotter, drier future.

An example of the cost of mitigation will be the extra we will all pay for low emission energy. Gas is dearer than coal. Wind, solar, geothermal, even nuclear are dearer than gas.

As the source of only 1.5 per cent of the world's emissions whatever we do domestically will make little or no difference to the global result. If we reduced our emissions dramatically, but the rest of the world did not, we would find ourselves paying a high cost for mitigation by reason of our own action, and a high price for adaptation by reason of the inaction of others.

During my time as Environment Minister three points about climate change became very clear to me and you will have heard me making them often. They bear repeating today.

The first is obvious: climate change is a fact, not a theory. By that I mean that whatever reservations people might have about the science, policymakers must, as Rupert Murdoch once observed, "give the planet the benefit of the doubt."

The second point is less obvious. Given that so much of our emissions are from sources that are likely to be very hard to abate either at all or at realistic cost, the emission reduction goals we are setting ourselves for 2050 will mean in practical terms that we will need in 42 years to have a world where all or almost all of our energy comes from zero emission sources and where deforestation, currently the source of 20 per cent of global emissions, is replaced by a global programme of reforestation.

This would mean that there would be no coal fired power stations unless the CO2 was captured and stored safely under the ground. Automobiles would be electric - a whole energy hungry world would have to undergo an industrial and technological transformation of a kind never seen before in its global scope and scale.

The third point is that there is no prospect of achieving the massive global reductions in emissions that science demands unless all of the major emitting nations both in the developed and developing world played a part. Until a few years ago that was a controversial statement, but as always the relentless logic of arithmetic has won the day. Indeed, as we saw at the US President's first Major Economies Meeting on climate last September even if the developed world cut its emissions by 100 per cent by 2050, to achieve a global reduction to 50 per cent of 2005 levels, the developing world would need to cut its emissions by 47 per cent.

It is important to remember that apart from the essentially symbolic issue of ratifying Kyoto there was precious little difference between the climate change policies of the Coalition and the Labor Party were not great at the time of the last election. And that was in large measure because in so many respects the Coalition was the agenda setter in climate change responses which the Labor Party then endorsed. The National Plan for Water Security and the Global Initiative on Forests and Climate being two obvious and recent examples.

Given the Coalition's failure to ratify Kyoto it was inevitable that

the political debate in Australia would be a fairly arid affair between the "believers" against the supposed non-believers or sceptics.

That political debate is over. The question now is how are we going to respond? We should never forget that the last time Australia managed to significantly reduce its greenhouse emissions was during Paul Keating's "recession we had to have."

We know that future historians will record that some nations met the climate change challenge with great efficiency. Others will no doubt make poor decisions, informed by deep green ideology rather than economics, and will achieve less abatement at greater cost.

Harnessing market forces is essential to achieving abatement at the lowest possible cost. If we require industries to acquire permits to emit CO2 and we limit the availability of those permits so that over time our emissions dwindle it will follow that those permits will become more valuable until such time as they hit the cost of abatement.

Of course the cost of abatement is different altogether to the cost of generating zero emission electricity. There are many opportunities for reducing carbon intensity through energy efficiency some of which will pay for themselves in that the cost of abatement (putting insulation in the roof, or better design to allow natural ventilation) may be less than the energy saving.

But it is important not to be seduced by the "easy being green" mantra that the transition to a low emission economy is a simple one. Yes there is plenty of low hanging fruit in terms of energy efficiency. But in a rapidly growing economy such as our own, let alone China or India, the improvements in energy efficiency will be overtaken rapidly by growing demand for energy and the inescapable reality of over time having to generate all of our stationary energy from zero emission sources remains.

The Rudd Government is set to introduce its emissions trading scheme (ETS) in 2010 a year earlier than that proposed by the Coalition in its ETS plan. Last week Professor Ross Garnaut released a thoughtful discussion paper which proposed auctioning off all of these permits.

This will impose a price on carbon, as would a carbon tax. The key difference is that under an ETS the Government sets the amount of emissions permissible and the permit price is set by the market and can fluctuate freely, whereas under a carbon tax the price is set by government and the amount of emissions is the result of market behaviour.

An ETS will see the Federal Government collecting substantial amounts of additional revenue. The Department of Climate Change projects that Australia's greenhouse gas emissions will be about 600 million tonnes in 2010. So even if Labor's ETS only covers two thirds of all

emissions, an auction price of \$25 per tonne would raise \$10 billion per annum in the early years. In 2010 this would almost offset the revenue that will be foregone as a result of the income tax cuts.

What should be done with this revenue?

While an ETS is, strictly speaking, distinctly different from a tax on carbon it will, like a tax, result in the transfer of many billions of dollars from business and households to Government.

The Rudd Government has committed not to allow tax revenue to increase as a percentage of GDP and the revenues from the ETS should, for that purpose, be classed as a tax. We will be holding the Rudd Government to account on this vital point.

This means that the ETS revenues must be matched by a reduction in other taxes.

There are other claims on the ETS revenues apart from tax cuts of course.

Clearly we should continue to invest, but effectively, in research and development on low emission technologies. The Coalition showed great leadership in that regard and the new Government should aim to do better still.

But the sums flowing from the ETS are going to be much greater than any of these items are likely to absorb.

We should take the opportunity with the revenues from the ETS to address both inefficient taxes as well as inefficiencies and inequities in our income tax system.

A lot has been said about assisting low income households who will be hard hit by higher energy and fuel costs. Reducing tax, including high Effective Marginal Tax Rates, on low income households should be a key priority.

But the objective should be this: compensating tax and welfare measures must ensure that no low income or pensioner household is worse off by reason of the introduction of the ETS.

The ETS also offers an opportunity to phase out a number of very inefficient State government taxes.

There is always a strong case for replacing relatively inefficient taxes, such as stamp duties on conveyances, insurance and motor vehicle registrations, with relatively efficient taxes. And with Government raising new carbon revenues the total tax take should be kept constant, or reduced.

But it is not only an issue of compensating the most vulnerable. An emissions trading scheme in which permits are auctioned and traded will interact with existing taxes in a complex way. As a result, the deadweight costs of many existing taxes could rise.

In other words, when viewed through the lens of climate change policy, tax reform in other areas cutting other taxes actually makes very

good economic sense.

Conclusion

The Government's response to climate change - an emissions trading system - provides a unique opportunity to reform Australia's tax system.

The emissions trading system will open up a major new source of Government revenue. Reviewing the efficacy of our tax system is always a good idea, but the pending arrival of the ETS makes it essential.

If we were to invest much of the revenue earned from the ETS into removing inefficient and inequitable taxes we would not simply keep the tax share of GDP neutral, we would also be reinvesting those revenues into a more efficient and productive Australia.