

Thank you very much for that welcome, High Commissioner, and I must say that it's a real pleasure for me to be here at this dinner tonight.

I have had the most wonderful – inspiring – few days in Auckland, Christchurch and now Wellington, and I have lots of new ideas and impressions to take away with me.

I am here to talk about the journey that British business has made over the past few years in its approach to climate change policy, and roughly where things stand now.

And I have to confess that I'm glad this dinner is taking place here, rather than across the Tasman.

Talking to people about climate change in Sydney a week ago, I felt a bit like Daniel in the lions' den – the one big difference being that I got thoroughly chewed up, more or less whatever position I took.

The atmosphere certainly seemed febrile.

I still don't know exactly why I got into such trouble.

Maybe it had something to do with the way I wore my Speedos.

In any event, I'd like to start tonight with a big disclaimer.

I am well aware of the huge differences between the economies of our three countries, New Zealand, Australia and the United Kingdom. And of course the political arguments in the three countries are different too.

So I'm not here to lecture, or draw comparisons. I just want to tell our story, and suggest a few lessons we've learnt in the UK that might turn out to be relevant here.

The starting point is that, contrary to what you may believe from reading the tabloids, Britain remains a major manufacturing nation, number six or seven in the world depending on how you do the reckoning.

And not so long ago, environmentalists were regarded with pretty deep suspicion by many British business folk. I can still remember hearing one old style boss declaring a few years back that saving the yellow backed toad was not worth the job of a single British worker.

Then something changed.

By the end of 2007, most British companies were ready to sign up to a call for, among other things, big cuts in greenhouse gas emissions, and a

robust carbon price set by a cap and trade emissions trading scheme.

What happened?

The answer is that a number of things came together at roughly the same time to make businesses think in a different way about both the risks and the opportunities thrown up by climate change policy.

First came a growing political consensus that urgent action was called for. And of course the politicians were driven by their voters, who were becoming increasingly anxious about the risks of man-made climate change.

In particular, David Cameron – leader of the centre right Conservative Party – was determined to shake off the Conservative's self-described image as the “nasty” party, and to change its profile in order to reach out to the centre ground where elections are won or lost in the UK.

He nipped up to the Arctic Circle, and had himself photographed with a husky dog sledge. He said that if elected he would run the greenest government ever. For a while, Britain's political leaders seemed to be outbidding each other to show their love for the environment.

And the European Union was moving in the same direction. In the Spring of 2007, its members committed themselves to a very aggressive programme of greenhouse gas mitigation.

Business leaders could see that, whether they liked it or not, the world was changing. Regulations were coming one way or another, and if they didn't get into the debate and try to shape it, they would end up like King Canute - the arguments would simply pass them by.

And they could see something else as well. Big companies around the world, like GE or Toyota, were starting to invest heavily in low carbon technologies. Very large sums of venture capital were flowing into green projects in California.

The world was changing, and first movers in the low carbon space were already grabbing the advantage. Estimates of the potential revenues from these new products and services were running into trillions of dollars.

If they didn't get engaged at an early stage, British companies could see themselves beginning to lose out.

Another big shift around this time came in the outlook for our power generating sector. The UK's nuclear power stations, which account for

just over a fifth of our electricity supplies, were fast becoming obsolete. We still had a lot of inefficient and dirty coal fired stations. Late in the day, the Government realised that the country was going to have to replace roughly a quarter of its power generating capacity by 2020.

If it failed, the lights would start to flicker by around 2017 – in the life of the next parliament. And unless we succeeded in building a diverse, cost-competitive, low carbon energy sector, we could end up with as much as four-fifths of our total energy supplies coming from imported gas – much of it brought in from places where you don't want to spend your summer holidays.

On the latest reckoning, the UK will need to invest around £110 billion on electricity generation and transmission by 2020.

It became increasingly obvious that the best way to unlock investment funds on that scale would be by introducing a price for carbon - providing the incentives investors needed to build efficient power plants on a very large scale. A clear and consistent price signal was required to make low carbon energy attractive to generate over the long term.

The next big driver of change in the UK was Nick Sterne's report for the Government on the economics of climate.

He argued that it was possible both to go green and to grow, provided action was taken quickly enough. And he said that the longer the world took to mitigate emissions and adapt to climate change, the greater the cost would ultimately turn out to be.

The retailers were the first to spot the changing public mood. Marks & Spencer launched its Plan A for a more energy efficient business – the big pitch being that there could be no Plan B – and found that the exercise actually increased profits by cutting its fuel bills. Its competitors did the same.

So the mood was shifting, and by the end of 2006, we at the Confederation of British Industry decided the time had come to take a leadership position.

We brought together a task force of 18 chairs and chief executives of the UK's most important companies, making sure that every sector of the economy was represented – banks and insurance companies, retailers, engineers, builders, energy suppliers and energy intensive industries, and so on. We asked them to meet once a month until they could come up with a conclusion, we provided them with a support staff, and we waited

to see what happened.

Over the course of the next year, it was fascinating to watch these very big cheeses getting to grips with the issues, understanding the data and moving their position, in some cases from outright scepticism.

The idea that particularly caught their attention was this. If the developed world was going to decarbonise its economy on the scale that increasingly seemed likely, then it faced nothing less than a new industrial revolution. Over the medium to long term, businesses would have to be green to grow. So they'd better get ahead of the curve.

The chair of the taskforce was Ben Verwaayen, who was chief executive of British Telecom at the time, and I'll always remember the opening lines of his foreword to the task force report.

"This report has not been written by evangelists," he wrote "but by business people. Are we sure that climate change exists? I am sorry, but that is not a question for us."

Business people, he went on, were not scientists or environmentalists, but they were paid to understand risk, and if necessary take steps to mitigate it. And they were also expected to spot opportunities, and to grasp them.

Since the issue of climate change presented both risks and opportunities on a big scale, the sooner they took action the better.

So the group supported Government plans for big cuts in greenhouse gas emissions, and argued that the most efficient way to achieve them would be by putting a price on carbon.

And in turn they said the best way to establish such a price would be through a cap and trade emissions trading scheme. They would rather the markets set a price than leave the decision to a finance minister. And emissions trading would give them a choice - they could either decide to invest in order to reduce their emissions, or they could buy permits instead.

I honestly expected that the report would be too much for some of our CBI members - but we didn't get a single resignation. To the contrary, a number of large companies joined up for the first time, showing how far the national mood was changing.

Then came the recession.

And of course that changed the picture a little.

Not surprisingly, the climate change issue slipped sharply down the league table of the public's worries – they were much more concerned about jobs and the squeeze on their incomes.

The steep fall in economic output brought with it lower demands for energy, and so delayed the threat of power blackouts by a few years.

Copenhagen was a disappointment, and the possibility of a serious multilateral deal came to seem less and less likely.

And industry, already struggling to make ends meet in the downturn, began to focus more on the potential costs of the big investments needed in power generation.

Just about Tony Blair's last act as Prime Minister had been to sign up to a binding European Union directive that would require the UK to generate 15 per cent of its total energy requirements from renewables by 2015, a rise of nearly eight times. As the Economist magazine put it, "It is hard to imagine the target being achieved; it is, alas, easy to imagine a lot of money being spent in failing to meet it."

The costs will come down as technology improves and the industry reaches scale. But the problem for the time being is that offshore wind is a very expensive way of taking carbon out of the energy system.

The recession and accompanying financial crash have changed the dynamics of in another respect. The UK government, very properly in the view of most business people, is determined to eliminate the country's large fiscal deficit within the lifetime of this parliament. This means that it is looking for ways to cut spending and raise revenues – and that is also having an impact on energy policy.

One example is the so called Carbon Reduction Commitment, which covers businesses that are not included in the European trading scheme. This was originally intended to be a green initiative, aimed at encouraging energy efficiency by recycling financial incentives from inefficient to efficient firms. But the rules were changed overnight.

Now it's just another tax.

So what's the current mood of British business on this vital issue?

In a recent speech, John Cridland – my successor as director general of the Confederation of British Industry – reaffirmed his members'

commitment to ambitious targets for cuts in greenhouse gas emissions.

“We want to see 80 per cent emissions reductions by 2050, and committing to 50 per cent reductions by 2025 is a step on the road,” he said, and he went on:

“The twin engines of meeting the low-carbon challenge are one, embedding a price of carbon across our economy – and making sure this is replicated across other major economies, and two, using this to generate market-led solutions to fix the future climate.”

Some companies would actually like government to move faster. Coca Cola, Unilever, Philips, Sony Europe and Ikea are among a group of multinationals that has been pressing the European Commission in recent weeks to target bigger cuts in emissions.

But of course by no means all businesses are thinking this way, and none is backing without question every measure intended to achieve the cuts. There is still an awful lot of debate to be had.

Last month, the UK Government put out its keenly-awaited White Paper on electricity market reform, setting out policy in big picture terms and including among other things proposals for a floor price for carbon.

The White Paper makes it clear that it is absolutely not the intention to force UK businesses to relocate to other countries where carbon emissions continue unabated. Thus, and I quote:

“We commit to announcing in the autumn a package of measures to reduce the impact of government policy on electricity costs for energy intensive manufacturers whose international competitiveness is most affected by our energy and climate change policies.”

So we can expect to hear dire warnings between now and then from the likes of the UK chemical, cement and steel industries of what will happen if they don't get favourable treatment. That's only human nature.

One important point to report is that the disaster at Japan's Fukushima nuclear power plant seems to have had little impact on public and political opinion in the UK. The Government responded well, commissioning a thoughtful report on what was to be learnt from what had happened, and the result is that unlike the story in Germany, Britain's nuclear rebuild is not going to face substantial delays.

Two weeks ago, Parliament approved the National Policy Statement on nuclear. And just last week, the West Somerset District Council gave the

all-clear for site work to start on Hinkley Point C - the first new nuclear plant in the UK for a generation and more.

Finally. what are the lessons from the UK experience to date?

I've got eight - but don't worry, I promise to be brief.

First, policy certainty is critically important. Businesses simply won't make the massive investments that are required to take carbon out of the economy unless they are confident about what the rules are going to be over the long term.

That's why a degree of political consensus is so important. In this respect, the switch from Labour to Coalition Government in the UK last year went off without a hitch.

Policy remained firmly on track.

Second, putting a price on carbon is the most efficient way of taking it out of the atmosphere. The big challenge is to do this in a way that is politically acceptable but which at the same time provides a strong enough price signal to drive change. Both the European Union and New Zealand have adopted a softly softly approach so far - but at least their systems are up and running.

Three, governments should be wary of mandating the technologies to be adopted in order to bring down greenhouse gas emissions. There is certainly a concern in the UK that the heavy emphasis on offshore wind could make our economy less competitive. The issue is about the right balance to be struck between wind, gas, nuclear and – eventually - carbon capture and storage.

Four, carbon leakage - the risk that carbon intensive industries might move offshore - has to be given serious consideration. The European Commission says that as things have turned out European concerns about this threat have been hugely overstated. But manufacturers of energy intensive commodities that can be traded in international markets - like cement or steel - do need special treatment.

Lesson five, policy consistency is important. For example, a decision to review the workings of the feed-in tariff in the UK has put part of this industry on hold for most of the year.

Six, the debate needs to be informed by objective information. A good example of what can be done is the work by Australia's Productivity Commission to show where the country stands in developing its policies

relative to other developed economies.

Seven, setting a long term target for cutting greenhouse gas emissions is one thing. Making sure you stay on course to meet this target is another.

The UK has a good model here in the Committee on Climate Change, an independent group of technocrats set up by the Climate Change Act of 2008 and responsible for advising the Government on meeting a set of legally binding carbon budgets between now and 2050.

These budgets are set over five-year periods at least three periods in advance. So the Government is due later this year to say how it intends to set policy in order to meet the carbon budget for the period from 2023 to 2027.

This approach is intended to give business a degree of confidence that the trajectory of policy has been set to achieve the long term goal, and that the government is not going to alter course.

And in the UK it seems to be working.

The eighth lesson is this.

In anything but the very short term, these policies are not a zero sum game in which a win for the environment represents a loss for the economy.

An increasing number of European companies - more than half, according to a recent EU survey – now factor a price for carbon into their investment decisions. Energy efficiency is being driven all the way up the supply chain.

In the UK, Nissan is building a new electric car and batteries for the world market in County Durham, and Tata Motors is developing low carbon technology at Jaguar Land Rover. Siemens and Clipper are among the companies investing heavily in offshore wind, and our ports are being rebuilt to handle the large bits of kit that are heading out to sea. The City of London is gearing up to be the international centre for carbon trading.

There are many other examples of companies getting stuck into low carbon services and products.

Britain will be the place in the developed world where nuclear is being built at scale in the next decade. And if we get it right, the sheer amount of investment in our power generating plant promises something like a

manufacturing renaissance.

So it's vital that we keep our eyes on the opportunities as well as the risks thrown up by the shift to a low carbon world.

For the UK, there will be big new markets for our high value engineers and our international financiers, to name just two sectors.

Australia needs to diversify its sources of domestic energy. As a massive exporter of coal, it also has a strong interest in being seen as a responsible player in the global debate, and in developing new technologies for cleaner energy.

New Zealand has the chance to build something big on the back of its very high proportion of renewable energy, its sensational natural assets, and its established skills in areas like food production, forestry and geothermal technology.

Three different countries, with three different sets of challenges and opportunities.

But for all of them, the necessity and the chance of building policies that will drive innovation and create new industries in a fast changing business environment.

The big win will come if we can all three learn from each others' experiences, exchange our best practices and ideas, and work together to build a prosperous and secure future.