Meeting Australia’s emissions reduction target using the Coalition’s Direct Action policy will cost at least $4 billion a year, economist and former Labor adviser Ross Garnaut says.

The Coalition has set aside $1.5 billion over three years for an Emissions Reduction Fund, which is the centrepiece of the Direct Action plan that will replace Labor’s carbon price.
Professor Garnaut said the government would have to exceed its budget in order to meet its stated objective of a 5 per cent reduction in carbon emissions below 2000 levels by 2020.

“A fund large enough to provide similar incentives for emissions reduction to those under existing policies would see a deterioration of the budget of around $4 billion to $5 billion per annum at a lower limit,” he told a Senate committee.

“Higher targets, as required by the Government’s domestic political and international commitments, would expand the budget deterioration.”

Professor Garnaut is a strong supporter of having a price on carbon. He advised the former Labor government on Australia’s existing climate change policies.

The Emissions Reduction Fund will involve bidding for cash payments in exchange for reducing carbon emissions. A second element of the policy will entail setting baseline emissions levels for businesses.

This “safeguard mechanism” will provide incentives for companies to reduce emissions beyond business-as-usual levels.

Professor Garnaut likened the Senate’s job in choosing between existing policies and Direct Action as being like judging a “Martian beauty contest”.

“I don’t yet think that the Senate has been placed in a position in which it can responsibly make a choice between the two approaches, because there has been an incomplete definition of the alternative,” he said.