

Australian Climate Change Policy

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I once called climate change policy diabolical, but with a saving grace¹.

It is diabolical because of the overlapping of four complex issues. While there is high scientific confidence that human action causes warming and that, beyond some limit, warming damages many aspects of human life, perhaps catastrophically, there is uncertainty about the precise consequences. The costs of effective action come now and the benefits much later. Avoidance of dangerous outcomes requires parallel action in all of the larger countries. And effective action is politically difficult because it confronts the interests of large corporations which are accustomed to investing heavily to bend policy to their own ends. When I first started working on the issue eight years ago I said that it might be too difficult for our political system at this early stage of our development.

The saving grace is that climate change captures the interest of large numbers of people in many and diverse countries to an extent that has no near comparator amongst contemporary policy issues. I saw this in the huge participation of citizens in public meetings to discuss draft reports and update papers during my two climate change reviews. We saw it in the electoral reaction to Prime Minister Rudd's decision not to battle on with draft legislation for an emissions trading scheme after its defeat in the Australian Senate in December 2009. We see it now in the pressure on the current Australian government to do its fair share in a global effort to mitigate climate change. We see it in popular pressures in countries as diverse as the United States and China.

Many things have changed since climate change policy cut a destructive path through Australian political life between 2007 and 2013.

The science has become less uncertain. The average of the increases in temperature that science leads us to expect from a doubling in greenhouse gas concentrations has not changed much, but the range around the average has diminished. Peer-reviewed science now identifies a human footprint in an increasing number of contemporary climate events.

The cost of breaking old links between levels of economic activity and greenhouse gas emissions has fallen dramatically. People everywhere are finding that they can prosper with much lower energy use--absolutely for electricity in the developed countries including Australia, and as a ratio to economic output in rapidly growing developing countries led by China. The costs of all the alternative energy sources are falling more rapidly than anticipated in my modelling seven years ago. Solar panel costs have fallen by 80 percent. Opportunities for sequestering carbon in soils, pastures, woodlands and forests are turning out to be closer to the upper than the lower end of the speculative range set out in my 2008 Review. In Australia, farmers are responding to the incentives providing by the combination of carbon pricing and the carbon farming initiative, now replaced by the Emissions Reduction Fund and the carbon farming initiative.

¹ Garnaut, R. 2008, *The Garnaut Climate Change Review*, Cambridge University Press, Melbourne.

Australians may soon be ready to look again at economically rational approaches to reducing emissions through carbon pricing. We now know that large reductions in emissions were achieved in covered sectors under the so-called 'carbon tax', and reversed after abolition in July 2015. New schemes in China, Korea, US states, Canadian provinces and elsewhere makes carbon pricing less lonely today. Awareness has grown that carbon reduction measures that raise rather than absorb government revenue serve fiscal as well as climate change purposes. Australians are starting to put the several sources of past electricity price increases into perspective—and an astute political leader could point out that only the increases from carbon pricing were compensated by tax cuts and social security adjustments. The scary prognostications about the effects of carbon pricing on industry and electricity supply did not come to pass, and are likely to be less influential in future political contests over climate change policy.

There has been a big change in international action on climate change, and in Australians' awareness of what others are doing. When I suggested targets for Australian emissions reductions in my 2008 Review, there was no international agreement on a goal for limiting greenhouse gas emissions. Nor was there agreement on how the international community should go about implementing any agreement to reduce emissions. The US President, George W. Bush, had told the 2007 Major Economies meeting that US emissions would peak in 2025. China had just doubled coal consumption in seven years and had not announced any target for constraining emissions growth.

That was why I proposed unconditional as well as conditional targets for reducing Australian emissions. If the rest of the world did nothing at all, we should reduce emissions by 5% from a 2000 base by 2020. I called this the 'waiting game'. We should reduce emissions by more if others were active—by 25% within effective global action towards limiting global temperature increases by 2 degrees, and by intermediate proportions if other countries were taking intermediate steps. These objectives were nested in a longer term requirement to reduce emissions by 90 percent by 2050 as Australia's fair share of a global effort to hold temperature increases to 2 degrees Celsius. The 2020 recommendations were accepted by the Australian Government with the full support of the Opposition led by Tony Abbott, and formally communicated as an Australian commitment to the United Nations. The then Opposition's continued support for the conditional as well as the unconditional targets was reiterated during the 2013 election campaign.

Following a proposal from the G20 heads of government, the Cancun meeting of the UN in 2010 unanimously agreed to aim at holding human-induced warming to 2 degrees. The Cancun meeting also agreed on an approach to limiting emissions that I call 'concerted unilateral mitigation'. There is a common approach to measurement of emissions and to trade in carbon credits. Governments set their own emissions reductions targets in the light of the global objective and other countries' actions, and choose policies to reach the targets. Targets and policies are subject to international review, which adds to domestic political pressure for laggards to do their fair shares.

At Cancun, President Obama made a serious political commitment to the US reducing emissions by 17 percent by 2020 on 2005 levels. The Chinese government committed China to reducing the emissions intensity of economic activity by 40-45% on 2005 levels by 2020.

The US is on a path to meet or over-perform on its target for 2020. China has gone way beyond the change in trajectory implied in its 2020 target. Chinese coal consumption fell in 2014 and may have passed its all-time peak. Preliminary data suggest that emissions fell slightly last year. In the first quarter of 2015, the absolute fall in Chinese emissions has exceeded total United Kingdom emissions.

Now that we know that other developed countries are taking comparable steps and major developing countries substantial action, our 2020 commitment is minus 15%.

The Presidents of the US and China jointly announced post-2020 objectives at the time of the 2015 APEC meeting in Beijing. The US announced that emissions in 2025 would be 26-28% below 2005 levels. China for the first time committed itself to quantitative limits—a peak by or if possible before 2030. My own assessment is that current policies in China will deliver a much earlier peak in emissions.

Two crucial policy decisions must be made for Australia in 2015. One is to honour the 2020 commitment. The other is to establish post-2020 targets that are in line with other developed countries and avoid leaving an excessive burden of adjustment to future Australians. I have suggested that targets from a 2000 base of minus 27.5 % by 2025 and 40% by 2030 are the minimum reductions that are consistent with responsible sharing of the burden between present and future Australians.

For Australia to do its fair share in an international mitigation effort, having and achieving reasonable targets is more important than the means we apply to reducing emissions. How we get there affects Australian prosperity but not environmental outcomes.

President Obama's Secretary for Energy, Nobel Laureate in Physics Steven Chu, made this point to me in early 2011 when I expressed concern about failure to legislate an emissions trading scheme. "Don't worry, Ross", he said to me. "We wanted to reach the target through economically efficient means that minimize costs to businesses and households. But that path was blocked by the Congress. We will get there in other ways". He then outlined for me the programme of regulatory action through which the Administration has since gone about reducing emissions.

The regulatory action through the Environmental Protection Agency has been supported by restrictions on gas exports, which in combination with domestic gas supply expansion have pushed the domestic gas price lower. That has introduced powerful pressures for replacing domestic coal-fired power generation by gas. The proportionately even larger increase in gas reserves in eastern Australia has had the opposite effect, because a new export industry is lifting prices to export parity.

The United States reduction has also been assisted by sub-national initiatives to price and to regulate carbon emissions. California was in front of others in regulatory action, and now is operating an emissions trading schemes as well. The Californian scheme is linked to Quebec and will soon be linked to Ontario. The addition of Australian States would lower Australian and North American mitigation costs.

The debate over carbon pricing in Australia was influenced by business hopes that the issue would go away. The greatest cost of global mitigation to Australia was always going to be the effect of other countries' mitigation on the price of coal, gas and other emissions-intensive exports. Hope within Australian business that the issue would go away contributed to the greatest resource allocation fiasco in Australian history: the overinvestment since 2011 in expanding resource exports into a declining global market.

An Emissions Trading Scheme has always been preferred over other options by Australian voters once it is accepted that emissions have to be reduced by one means or another, and if it is explained to citizens that carbon pricing allows increased costs for carbon-intensive goods and services to be balanced by some combination of tax cuts and additional public services.

The 2011 Australian scheme, linked to Europe as it would have been by mid-2015, and with the legislated provisions for assistance to trade-exposed industries and Productivity Commission review, remains an environmentally reliable and economically efficient approach. It generates a lot of revenue for compensatory tax cuts or reducing the deficit. Low European carbon prices at present would give reintroduction of the scheme a gentle start. A straightforward carbon tax could also do the job and is popular politically in Canadian Provinces that have used the revenue to reduce other taxes, but the peculiar history in Australia makes revival of a fixed carbon price unlikely for the foreseeable future.

An emissions trading scheme linked to Europe at current permit prices would see a substantial part of Australia's contribution to the global mitigation effort coming from purchase of overseas credits. This is consistent with our doing our fair share in the global effort. Slow reduction of emissions within Australia, however, would leave us vulnerable in later years when larger reductions are required and the costs of international credits higher.

To avoid placing an excessive mitigation burden of emissions reductions on future Australians, it would be wise to supplement an emissions trading scheme linked to Europe with regulatory action over the early years. The Renewable Energy Target has turned out to be a relatively low-cost way of achieving large emissions reductions in the electricity sector. Modelling commissioned by the Warburton Committee indicates that a stronger Renewable Energy Target would reduce electricity costs to users. The RET and other regulatory support would be rendered redundant as European carbon prices rose with tighter targets and, hopefully, the return of at least moderate prosperity to that continent.