

Senate Select Committee on Climate Policy

Parliament House, Canberra, Thursday 16 April 2009

Professor Ross Garnaut

Senators

I submit for your consideration three documents: the Climate Change Review that I presented to the Prime Minister, Premiers and Chief Ministers on September 30 last year; the paper, "Climate Change and the Australian Agricultural and Resource Industries", that I presented as the opening address to the annual conference of the Australian Agricultural and Resource Economics Association in Cairns on February 11 this year; and the paper, "Climate Change and the Great Crash of 2008", that I presented as the opening address to the CSIRO Greenhouse 2009 Conference on March 23 in Perth this year.

The Garnaut Climate Change Review concluded that, on a balance of probabilities, Australia faced large risks of dangerous climate change. Australia would be damaged more than any other developed country by climate change. The only worthwhile mitigation would be through action by many countries, which would require a global agreement. It would be in Australia's national interest to promote and to play its full proportionate part in an ambitious global agreement, to hold and to reduce concentrations of greenhouse gases in the atmosphere to 450 ppm, (carbon dioxide equivalent) or less. To achieve this result, all substantial economies would have to accept targets for levels of emissions from an early date, and developed countries would have to accept large reductions in emissions from an early date. Australia's proportionate part in a global agreement with ambitions to hold and to lower emissions concentrations to 450ppm, taking population into account in ways that would be necessary to secure global agreement, would be emissions reductions of 25% from 2000 levels by 2020, and of 90 percent from 2000 levels by 2050. These numbers relate to emissions entitlements and not emissions: actual emissions could be higher or lower as a result of international trade in emissions entitlements.

These were not ambit claims from an advocate for strong mitigation. They were numbers derived from detailed and transparent economic analysis.

To the extent that the global mitigation effort falls short of these goals, Australian living standards will be reduced over time, taking into account both the cost of mitigation and the cost of climate change.

Now is a good time to be honest with ourselves, because late is better than never. The recent discussion of climate change policy in this country has not provided a sound basis for Australian participation in development of a global climate change agreement that suits Australian interests. It is not too late to correct the weaknesses,

but time is running out if we have in mind the strong global mitigation that suits Australia's national interest. Australia matters to the international discussion, not least because we have the potential to influence the positions of developing countries in East Asia and the Pacific. We have mattered a great deal in the past, as we have held back the prospects of strong international progress on mitigation. We could matter in a direction that was consistent with Australia's national interest, if our domestic policy was strong enough to sustain the diplomacy.

There is uncertainty in the science. The uncertainty is in both directions. On the whole, the uncertainty adds to the case for strong and early mitigation.

There is some risk that the costs of weakly mitigated climate change will come earlier and be greater than suggested by the central estimates reported in my Review. The conditions of drying and warming in southern Australia, that are destroying the established patterns of life of many people in the heartland of old, rural Australia, are consistent with the expectations from the mainstream science under the "earlier and greater" possibilities. The extreme weather conditions that set the scene for the bushfires in Victoria in February are consistent with the expectations from the mainstream science under the "earlier and greater" possibilities.

The "middle of the road" expectations from the science from "business as usual" emissions growth along the lines anticipated by my Review are bad enough. Imagine 5 degrees of average temperature on top of current levels. Imagine the hot week a week and a few days before the bushfires in Victoria—not the scorching weekend of the fires. About 43 degrees for three days in a row. Imagine three days in a row of 48 degrees.

There is some possibility that the costs of weakly mitigated climate change will come later and be smaller than suggested by the central estimates reported in my Review. To use the language of the financial markets, there is a small chance that, if we don't do much, we will nevertheless avoid "blowing up". My Review shows that the economic benefit of taking that chance is small.

It would be wonderful if that small chance of not "blowing up" were to appear on the dice of climate history.

But let us remember that we are playing dice with the lives of Australians of the future. We are playing dice with the established patterns of life and institutions of rural Australia. We are playing dice with the political stability of countries whose order and good government is important for Australian security.

We would not trust our bank deposits or our superannuation money to financial institutions that were prepared to gamble so much on such a small chance of a positive outcome.

We should not trust the future of Australia to political leaders who are prepared to take that risk with our standards of living, our institutions and the Australian way of life.

As I explained in the opening address to the CSIRO conference in Perth, the global financial crisis and recession does not materially affect the costs of mitigation or of weakly mitigated climate change. It does affect the political difficulty of achieving an Australian and international policy outcome that reflects Australia's national interest.

The depths of recession is a good time to invest in the new processes and industries that will make Australia's low-emissions economy of the future. Recovery from recession---an eventuality which we hope but do not know will be with us in 2010---is a good time to invest in the whole range of structural change that would be associated with the combination of a significant and rising price on emissions, and strong fiscal incentives for research, development and commercialisation of low-emissions technologies.

Now is not necessarily a good time to settle in their final form all of the parameters of Australian and international mitigation policies with ambitious goals, because it is not a good time for good policy. As we know from long history that includes the Depressions of the 1890s and the 1930s, the recession makes the political process even more vulnerable than usual to pressure from vested interests.

That is the dilemma exposed before the Senate, as it deliberates on whether an imperfect Emissions Trading System is better than nothing.

The dilemma is evident in the proposals before the Parliament.

The proposed legislation to establish an emissions trading system has good elements. The best of them is that it establishes the framework of an Emissions Trading System (ETS)—the complex legal framework for many institutions and instruments that would need to be part of an ETS. It has taken much work and good work to get the legislation to this point. To abandon this legislation comprehensively now would introduce the chance that no Government and Parliament would want to try again.

I said in the Review that a well-designed ETS is better than a carbon tax; but that a carbon tax is better than a heavily compromised ETS. A good ETS and a carbon tax are both better than the main alternative: a myriad of regulatory interventions to promote emissions-reducing and to reduce or to ban emissions-generating activity.

A good ETS would be better than a carbon tax, for two reasons. It would secure the emissions reduction objective directly, rather than through a process of trial and error requiring sequential adjustment of the carbon tax rate. And it would fit more easily into a pattern of international trade in emissions entitlements, which would be necessary to secure the participation of many developing countries in a global mitigation regime.

Only a good carbon tax would be better than a compromised ETS. Here we should not be persuaded that the grass is greener on the other side of the fence simply because it is on the other side. If the Australian Government and Parliament were debating the introduction of a carbon tax, it would be subject to similar pressures from vested interests to those which have contributed to flaws in the ETS. It is not easy to say whether the Government and Parliament would be better able to defend the national interest if the pressure were over tax rates and exemptions, rather than emissions targets and free permits.

The failure to legislate now for either a carbon tax or an ETS will not be the end of the Australian mitigation story, even in the very short term. The legislative record of every Parliament in Australia is already full with interventionist measures purporting to reduce emissions. We would unleash a flood of new measures if we failed now to adopt a comprehensive, market-based approach to mitigation. The proof is in the political appeal of such measures. The costs of each new intervention seem small in isolation. It will not be long before some large ones are on the notice papers. The mitigation value of such interventions will probably not be large—not least because they will be difficult to bring to account in negotiations on a global agreement. The total costs will certainly be large.

I have been asked by many Australians, and by Members of Parliament representing several parties, whether the ETS that is before the Parliament is better than nothing.

My response is that it would be substantially better than nothing if it were modified in three ways:

1. The upper limit to emissions reductions were raised to 25% of 2000 levels by 2020, on condition that other countries had made commitments that added up to an agreement to hold and to reduce greenhouse gas concentrations in the atmosphere to 450ppm.
2. The Australian Government undertook to commit large amounts of additional funding to research, development and commercialisation of new technologies, along the lines proposed in the Climate Change Review.
3. The legislation provided for the cessation of issue of free permits to trade-exposed firms as soon as one of two developments had occurred. One development would be the acceptance of emissions targets and international trade in permits in economies accounting for a high proportion (say, 80 percent) of global emissions. The second development would be the introduction in Australia, unilaterally or through international agreement, of an economically rational system of assisting trade-exposed industries. Such a system would compensate firms for the effect on product prices of some other countries not having similar emissions prices to those in Australia.

I note for the record that recent press reports have misrepresented my economically and environmentally rational proposal for transitional assistance to trade-exposed industries. The proposal is described in Chapter 14, section 5 of the Garnaut Climate Change Review.

The adoption of the approach proposed in 3 above would provide over time for the financing of the commitment to support for research, development and commercialisation of new technologies, without running risks to future fiscal integrity.

Outside the ETS legislation, it is important that major efforts be made to develop the technologies for geo-sequestration in Australian soils, pastures and woodlands. This is potentially transformative for both the costs and the ambition of Australian and international mitigation. Australia has a large role to play in mitigation through bio-sequestration and trade in emissions entitlements with countries in its immediate region.

I would see advantages in introducing the ETS in 2010 as proposed, and allowing firms to purchase permits from the regulatory authority at a low fixed price until the end of the Kyoto period. This would provide some certainty about the costs of emissions permits to Australian business through a period long enough to encompass with high probability the recovery of the economy from recession. This would mean that market-based, flexible prices would be introduced from the beginning of 2013, when the outcome of current international negotiations, at Copenhagen and subsequently, were known.

I look forward to your questions.

A handwritten signature in black ink, reading "Ross Garnaut". The signature is written in a cursive, flowing style.

Ross Garnaut

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