

Carbon tax 'economically efficient': Garnaut

Lateline

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Economics Professor Ross Garnaut says a market-based approach to reducing emissions will cost Australians substantially less than a regulatory approach.

Transcript

EMMA ALBERICI, PRESENTER: Our top story is the first working day of the carbon tax.

Ross Garnaut, Professor of Economics at Melbourne University and the independent adviser to the Government on climate change, joined me just a short time ago from our studio in Melbourne.

Professor Garnaut, many thanks for being with us tonight.

ROSS GARNAUT, ECONOMICS PROFESSOR, MELBOURNE UNI.: Hello, Emma. Good to be here.

EMMA ALBERICI: Now I'm curious to know what you make of the current nature of the political debate surrounding the introduction of the carbon tax, something that you found in 2008 and again just last year that was to be in Australia's best national interest.

ROSS GARNAUT: Yes, well, it's an extraordinary atmosphere in which this discussion of a serious public policy issue is being carried out. Most things are being trivialised, the whole debate's being treated as a football game with a lot more focus on the scores.

Don't want to trivialise the importance of football, but this is a really serious long-term issue for the country. And it's a complicated one.

There's a package of measures that came through the Parliament that involve raising a price on carbon, collecting quite a lot of revenue for that, giving quite large tax cuts in a way that improves economic efficiency, substantial family payments, support for trade-exposed industries, support for renewable energy and it's very hard to get a serious discussion of the package as a whole.

Similarly, what Australia does takes place in an international context. We're the highest

emitter of greenhouse gases per person in the developed world and we should be a little bit sensitive to that fact and sensitive to what others are doing.

And when I was preparing my second report, there was a lot of focus in the public discussion about how China and the United States weren't doing much. Well, they're actually both doing quite a lot now and you wouldn't know it. There's just no place for real analysis of international developments in the Australian policy discussion on this matter.

EMMA ALBERICI: Well let's take some specifics on the discussion. The Opposition Leader Tony Abbott says it will raise every family's cost of living, it will make every job less secure, but it won't help the environment. In fact he claims that Australia's emissions will be 8 per cent higher by 2020.

ROSS GARNAUT: Well, there are three propositions there. On the first of those, it will raise the cost of living by a small amount. On the second of those, it will not make every job less secure.

It will make some jobs more secure. And it will very substantially reduce emissions below what they would otherwise have been, and in addition puts us in a very strong position at low cost to increase our effort and reduce emissions more if and when action in the rest of the world requires us to do so.

EMMA ALBERICI: Alright. Well you in your 2011 update of the Climate Change Review, you make the point that a market-based approach like that which the Gillard Government has introduced will cost Australians substantially less than a regulatory approach like that advocated by Tony Abbott. Can you tell us how did you arrive at that conclusion?

ROSS GARNAUT: Well let's step back from association of a particular position with the Leader of the Opposition. I don't want to get involved in that.

But I don't think you'll find economists arguing with the proposition that a general price on carbon will give you lower economic costs for the same amount of mitigation as interventions, government interventions in particular industries case by case to try to reduce emissions.

The Productivity Commission in its important report last year for the Multi-Party Parliamentary Committee on Climate Change made the same point very strongly. The leaders of the United States, members of president Obama's cabinet, made the same point to me. They said they'd been disappointed that the defeat of the emissions trading scheme that president Obama wanted to legislate - its defeat in the House of Representatives meant that they weren't going to be able to, in the short term, reduce emissions in the low-cost way, but they were still very strongly committed to meeting strong emissions reductions targets so they'd just have to do it in a way that imposed greater costs on households and businesses.

Carbon pricing across the economy is economically efficient.

EMMA ALBERICI: Now I know you don't want to engage in the political debate, but it's a bit hard to escape the fact that Australians are finding it very difficult at the moment to understand and actually work through the issues, given what's been said by both sides of politics.

Actually nutting through to the sense of the matter has been difficult as a result of the political debate and the toxic nature of it. I'm interested to know - on one side you've got Tony Abbott's direct action plan and on the other side you have a carbon tax.

Now on the direct action plan, I'm interested to know from your perspective whether that will be a more expensive plan than the carbon tax under the Gillard Government.

ROSS GARNAUT: Well let's leave aside that it's the Opposition's direct action plan and actually we don't know very much about that yet and let's leave aside the association of the carbon pricing with the current government.

In general there is no dispute amongst economists, so with the idea that you will reduce emissions at lower cost, by a specified amount at lower cost, if you achieve that result with an economy-wide price on emissions rather than through government trying to intervene in particular sectors to reduce emissions.

One is the operation of the market where businesses respond to incentives and find the lowest cost way of doing things. The other is government second-guessing business and deciding that certain areas are the areas in which we'll try to reduce emissions in certain ways, other areas will not be.

It is of the nature of market operations that businesses find ways of doing things at lower costs that no bureaucrat will ever think of. And that's why, in general, market-based solutions are more efficient than direct interventions and central planning.

EMMA ALBERICI: What of the argument specifically promulgated by the business community, the Australian Chamber of Commerce and Industry for one, says Australia should've waited until there was more global action? What has been the global response in the intervening years since you did your first review in 2008?

ROSS GARNAUT: The big commentary is usually from those who want to compare other countries' action unfavourably with Australia is usually to push forward the United States and China.

Well in the United States, which was already doing a lot, it's maintained a very strong effort in support for direct fiscal support for low-emissions technologies. The United States government, president Obama's government, has been very strong in strengthening

regulations to reduce emissions through the Environmental Protection Agency.

A number of states, including America's largest state, most populous state, California, have legislated to introduce emissions trading schemes of their own. California's begins at the beginning of next year. And the United States has facilitated the onward march of what I called in my report last year the gas revolution - the replacement of a very large part of coal-fired power generation by gas.

As a result of all of these actions, I'd be more confident now than I was in the middle of last year that the United States will meet the president's stated goal of reducing American emissions by 17 per cent by 2020 from 2005 levels.

In China, the big new developments that I reported last year on lots of things that China was already doing - the big new developments are a stunningly large appropriation of funds for low-emissions technologies and energy efficiency throughout the coming five-year plan. And, in addition, a surprise: China has introduced pilot schemes for emissions trading schemes much like ours in five cities and two provinces and is talking about generalising those into a national scheme once they've been able to observe the - how these are operating.

EMMA ALBERICI: Given there is still persistent discussion about whether the science has been settled on this issue of climate change, do you feel emboldened by the Supreme Court decision last week in the United States and tell us a little bit about it?

ROSS GARNAUT: Well that's a tremendously important decision. I don't feel emboldened on the science by it. The judges of the US Supreme Court are in the same position that I am. We're having to look through the fog and form a judgment on the basis of a whole lot of information of whether the science that links human greenhouse gas emissions to warming and to damage to the future of our civilisation is real or not.

Well, the Supreme Court was asked by opponents of president Obama's environmental legislation to judge upon this matter and they've upheld the legislation. It doesn't do any more to uphold the science than my saying the science is right upholds it. That's a matter that will be settled in the science.

But certainly it's a big step for the United States government system for that legislation to have been upheld. Interestingly, in all the froth of the Australian discussion, I haven't seen much of a reference to it at all in the Australian media.

EMMA ALBERICI: And notable that those Supreme Court judges were largely conservatives.

ROSS GARNAUT: Yes, and they've come down in other ways on other issues. They weren't simply lining up with the political parties, or a majority of them would've lined up on the other side.

EMMA ALBERICI: How can Australia's coal industry, our second biggest export industry, how can it be saved from the effects of the carbon tax long term?

ROSS GARNAUT: Um, if you want a quick answer: carbon capture and storage.

EMMA ALBERICI: Well, let's take that - let's take ...

ROSS GARNAUT: Or other mechanisms for capturing carbon dioxide emissions and keeping them out of the atmosphere. And quite a lot of work's going on on a number of mechanisms. One is the geological carbon capture and storage and then there are quite a lot of pieces of research, development and commercialisation of new technologies to trap those emissions and use them in manufacturing processes.

But unless we can do that, the long-term future of the thermal coal industry is not a strong one. The metallurgical coal industry, also substantial in Australia, but over the last 20 years hasn't grown as rapidly as the thermal coal - the metallurgical coal has a different purpose and different and more limited substitutes for that, and so it's going to be harder to - for the world to greatly reduce use of metallurgical coal and so capturing the emissions is going to be crucial there.

EMMA ALBERICI: But of course one of the key assumptions also in the Treasury modelling says that after 2021, carbon capture and storage technology will be available on a commercial scale and disposing of 90 per cent of CO₂ emissions. Now how is that going to happen given that at the moment there are no large-scale products underway anywhere in the world?

ROSS GARNAUT: Well I know that Treasury modelling very well and it's not an assumption of the Treasury modelling. What is assumed are certain costs of carbon capture and storage.

EMMA ALBERICI: But I guess the point is that it hasn't been proven to work on a commercial scale.

ROSS GARNAUT: Already there are carbon capture and storage mechanisms on a commercial scale. They're very expensive and they may not turn out to be as cheap as alternative ways of generating energy.

Coal-based power generation with carbon capture and storage may or may not turn out to be cheaper in the end than the alternatives. And I think there's a strong case for putting effort into a range of technologies and supporting on a level playing field a range of technologies and seeing which one ends up getting the job done. What we want to do is reduce emissions, not favour particular ways of doing it.

EMMA ALBERICI: But I'm just interested because Australia obviously is such a carbon-

intensive economy that we also saw just last week or the week before National Academy of Sciences and a separate study by experts at Stanford University in California that both found that CCS - carbon capture isn't the problem, it's more about the storage and that it risked earthquakes.

Even if property wasn't damaged, they said, it risks breaking the seal and CO2 seeping back into the environment.

ROSS GARNAUT: Well that depends on the particular geological circumstances. We've got some very important research going on in Australia that is establishing that in certain circumstances you can get safe storage.

In other circumstances, you wouldn't be able to. And so, on this, as with any new technology, you've got to do the work. There are no shortcuts. You've got to really work on what's cost effective, on what's safe.

EMMA ALBERICI: Professor Garnaut, we have to leave it there. Thank you so much for coming in and being with us tonight.

ROSS GARNAUT: Good to talk to you, Emma.