

# **ONE YEAR AFTER THE GARNAUT CLIMATE CHANGE REVIEW**

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One year has passed since I released the final draft of the Climate Change Review. In the lead-up to Copenhagen, this is a timely opportunity to reflect on developments in the consideration of this diabolical policy problem and where it is all going now.

It's relevant that my final report was presented to the Australian Prime Minister on the morning of the biggest ever points fall on the New York Stock Exchange. The discussion of the review has been against the back drop of the Great Crash of 2008 and the recession which followed.

The Great Crash had three sorts of effects on the climate change challenge.

Firstly, it temporarily and briefly stopped the growth in global emissions, but by an amount that is not material in the sweep of history.

Secondly, the unemployed resources, the unemployed capital and labour which were a consequence of the great recession, lowered the cost of investment in structural change. It made this a relatively cheap time to invest in the new technologies. Many countries including the United States and China made a major place for investment in emissions reducing structural change in their stimulus packages and the total effect of this on the world scale was considerable.

Thirdly, the political economy of mitigation became more difficult. Because it is a time of rising unemployment globally, demands by established industries for support for resistance to structural change are on the rise.

Overall, the elections of new governments committed to stronger mitigation in the USA and Japan, the strengthening of old governments in India and Indonesia, and strong community support for action has prevented a general international retreat on mitigation in the year since the Great Crash.

The approaches of the Review to the science, and the uncertainty surrounding it, have been influential. The Review accepted the views of mainstream science 'on a balance of probabilities'. There is a chance that it is wrong. But it is just a chance. To heed instead the views of the small minority of genuine sceptics in the relevant scientific communities would be to hide from reality. It would be imprudent beyond the normal limits of human irrationality.

Substantial support has been generated for the idea put forward in the Review, that Australia's national interest is in a strong global agreement, with Australia's part being to reduce emissions entitlements by 25 per cent from 2000 levels by 2020 and 90 per cent by 2050. The Government and Opposition have accepted the Review's approach to conditional and unconditional targets for 2020. A year ago the 60 per cent reduction target from 2000 levels by 2050 was seen as a stretch target, but now mainstream discussion is about how far beyond that we have to go. The Prime Minister has indicated willingness to seek a mandate at the next election to tighten old 2050 targets from 60 per cent to larger reduction.

Some environmental groups have wanted stronger mitigation with more ambitious goals than 450 parts per million, but I'm not sure those views come to grips with the awful reality that any path to anything more ambitious than 450 must first secure 450 parts per million with some overshooting and then go lower. There is a danger that the best has become the enemy of the good, and the friend of the bad.

The Review's approach to compensation for low-income households has been widely accepted by the government and has not been controversial, but compensation to businesses has followed different lines.

The absence of principle in payments to trade-exposed industries for the temporary period in transition to effective global mitigation has led to arbitrary distribution, probably to over-allocation on average, to the absence of an expectation of, or process for, early phasing out as others move to stronger mitigation and to the ugliest 'money politics' we have seen for a generation.

It's a pity that there's been so much focus on what are essentially transitional arrangements. We would have a more fruitful discussion if we focused on how the mitigation system would work once an effective global agreement was in place with all major economies taking part.

There has been relatively little fiscal allocation for innovation in low-emissions technologies; the pre-emption of permit revenue for other uses is one of the reasons why.

The ambits of the government's response have focused on carbon capture and storage technologies.

The initiative that the Australian government took in global leadership on carbon capture and storage (CCS) is a valuable one. There's been criticism of the support for CCS technologies, mainly from green groups because it's seen as supporting an old industry, the coal industry. CCS research investments are thoroughly justified. The problem is not the support for CCS, but the absence of support for innovation in other technologies in which Australia has comparative advantage in research, a large economic interest, and which are potentially transformative for the global mitigation effort. Bio-sequestration is the most obvious of these.

Much of the debate has not been about the targets, the objectives or the need for mitigation, but has been about the instrument that Australia should use in reducing greenhouse gas emissions. There's been a tendency to compare an ideal carbon tax with a flawed emissions trading scheme (ETS). In truth, the political economy of implementing a clean carbon tax would be as difficult as a clean ETS. One senior business figure who favours a carbon tax has said to me that there is much controversy about giving free permits to favoured businesses, and it would be much more straightforward to give special support for a favoured industry under a carbon tax: under the traditions of the Australian tax system, he said, if you want to favour some industry you just exempt it from the tax and people don't notice it very much.

The international regime proposed by the Review has held up well to the international discussion. There's been a fair bit of discussion of it in India, China and Indonesia, and this is to a considerable extent focused on the date at which convergence to equal per capita entitlements should occur. It's also focused on the parameters of support of developed countries support for new technologies and adaptation.

Further, there's growing acceptance in China that the Review's formula for Chinese participation in a global regime is consistent with attainable Chinese policy objectives.

While the ETS as proposed by the government has many weaknesses, it's likely that changes to facilitate support in the Australian Senate would exacerbate rather than ameliorate weaknesses. One main exception to what I've just said would be if stronger measures were introduced to support innovation related to bio-sequestration. Another would be if it were possible to introduce explicit arrangements to phase out assistance to trade exposed industries as other countries strengthen their mitigation efforts.

But such good changes are much less likely than exacerbation of distortions in

response from business interests. From that perspective I hope that the ETS can be passed into law quickly and with no further distortion, if necessary through a Joint Sitting of the House of Representatives and the Senate.