

# Garnaut, the Green Paper, and Climate Change

What happened in July 2008?

# Garnaut Draft Report vs. the Green Paper

## Garnaut

- The Garnaut Climate Change Review was jointly commissioned by the states, territories, and Rudd Labour Government
- Report on the costs of climate change, the costs of responding to climate change, and proposed emissions reduction policies

## Green Paper

- Commonwealth Government's manifesto on the proposed design of the Australian Emissions Trading Scheme (AETS).
- The AETS has since been rebadged as the Carbon Pollution Reduction Scheme (CPRS)

# Garnaut Draft Report vs. the Green Paper

## Garnaut

- Garnaut Draft Report was released on July 4
- Supplementary Draft to be released in late August with Treasury modeling of costs of climate policy
- Final Report to be released September 30

## Green Paper

- The Green Paper was released on July 16
- White Paper to be released in December with final design features of the CPRS

# Garnaut Draft Report vs. the Green Paper

## Garnaut

Details an economically 'pure' approach to broad mitigation policy.

Describes what should and would happen in the absence of political considerations

## Green Paper

The Green Paper proposes an AETS that is less than 'pure'

'Impurities' can be viewed as the 'political overlay' of policy making

# Garnaut Climate Change Review: Draft Report

The Garnaut Review was commissioned to...

*...examine the impacts of climate change on the Australian economy, and to recommend medium- to long-term policies and policy frameworks to improve the prospects of sustainable prosperity.'*

# Garnaut's contribution

- To date, the focus of debate has been solely on the cost of addressing climate change
- The Garnaut Draft Report showed the cost of failing to address climate change

# The cost of inaction...

- 92% decline in irrigated agriculture in Australia's food bowl- the Murray Darling basin
- Destruction of the Great Barrier Reef- an internationally renowned driver of Australian tourism
- Loss of Australian snow based tourism
- Up to 35% increase in the cost of supplying urban water
- Significant risk to coastal buildings from increased storm events and sea-level rise – leading to coastal and flash flooding & extreme wind damage

# The cost of inaction...

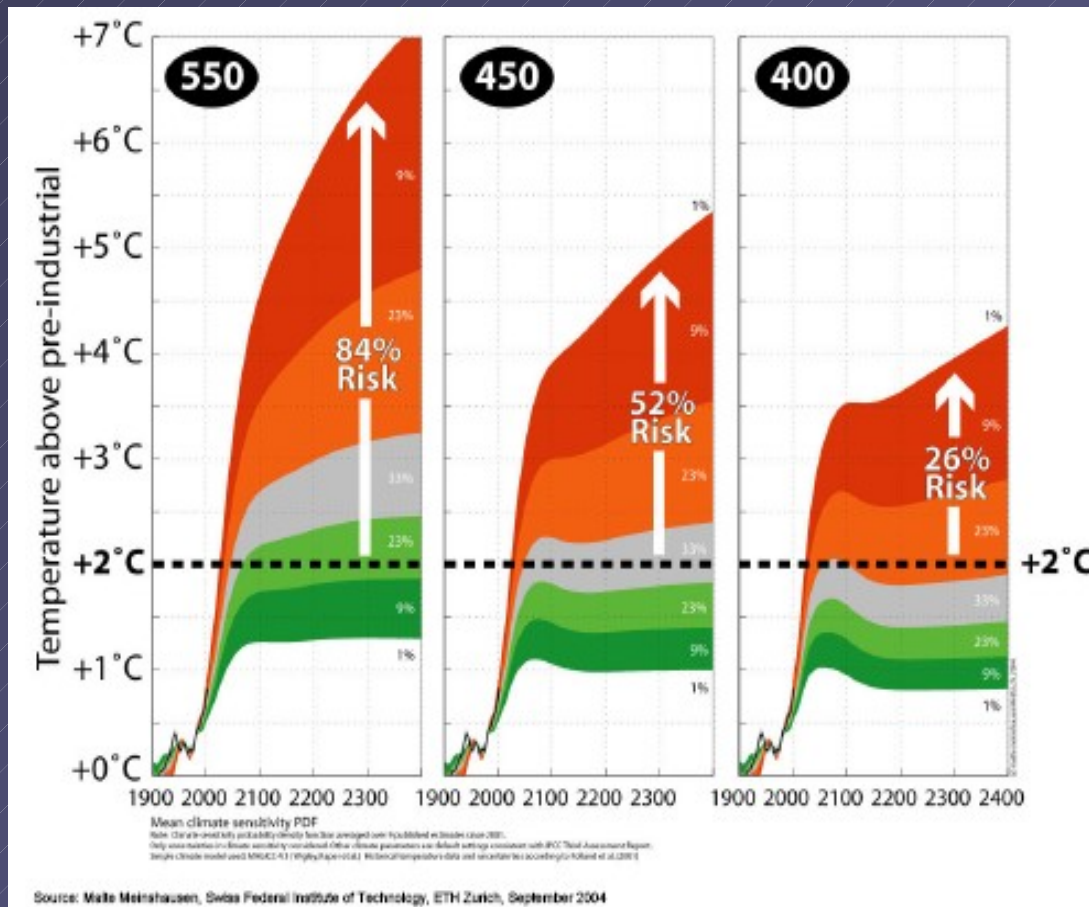
- Up to 9,500 heat-related deaths in Qld each year and 5.5 million Australians exposed to Dengue virus
- International conflict over resources leading to further burden on Australian defence forces and exposure to global macroeconomic downturns
- Sea-level rise causing major dislocation in coastal mega-cities of Asia and small island states, leading to an influx of climate refugees from the region

# The cost of inaction...

Considering only a narrow subset of costs the Draft Report found that unmitigated climate change could mean...

- 4.8%- 8% reduction in 2100 GDP
- Household consumption down by 5.4%- 9.1%
- 7.8%- 14.8% reduction in real wages

# What do we need to do to avoid the worst of these predictions?



# What cuts do we need to stabilise below 400ppm CO<sub>2</sub>e?

- Emissions to peak by 2010
- At least 40% cuts on 1990 levels by 2020
- At least 95% cuts on 1990 levels by 2050

# How? What does an effective policy mix look like?

- Emissions trading  
(Central)
- Energy Efficiency Measures  
(Complementary)
- Renewable energy targets  
(Complementary)
- Biosequestration  
(Parallel)
- Research & Development  
(Complementary)
- Information Provision  
(Complementary)
- Progressive removal of  
perverse incentives  
(Complementary)
- Appropriate structure of  
equity safeguards

# Emissions Trading

Central emissions abatement mechanism as long as it does not deteriorate into a wealth transfer mechanism

Need to be on guard against 'gravy train' revisions to the ETS

# Emissions Trading

<b>Garnaut</b>	<b>Green Paper</b>
<p data-bbox="208 539 776 782">'The emissions trading scheme is the central instrument of Australian mitigation.'</p> <p data-bbox="208 886 904 1125">'However a carbon tax would be better than a heavily compromised emissions trading scheme.'</p>	<p data-bbox="1078 539 1792 782">'Fundamental to the Government's climate change strategy is a Carbon Pollution Reduction Scheme.'</p>

# Energy efficiency measures

Non-price barriers may reduce level of energy efficiency delivered by ETS

- Immateriality of energy cost savings relative to total income
- Institutional momentum
- rational ignorance
- 'behavioural' factors and 'bounded rationality'

# Energy efficiency measures

## Households

- Minimum energy efficiency standards for appliances (MEPS)

## Commercial buildings

- Minimum NABERS Energy Rating standards

## Industrial facilities

- Energy efficiency mandates (eg. EREP and ESAP)

White certificate trading schemes (eg. NEET, VEET, REES)

Demand management provisions in the National Electricity Market (NEM)

# Energy Efficiency Measures

<b>Garnaut</b>	<b>Green Paper</b>
<p data-bbox="117 535 938 586">Energy efficiency trading schemes</p> <p data-bbox="117 689 929 868">Mandatory disclosure of energy efficiency ratings for buildings and appliances</p> <p data-bbox="117 968 904 1086">Minimum performance standards for buildings and appliances</p>	<p data-bbox="987 535 1663 644">Household energy efficiency measures</p> <p data-bbox="987 751 1673 802">Climate Change Action Fund</p> <p data-bbox="987 905 1514 956">But largely defers to...</p> <p data-bbox="987 1059 1586 1178">COAG assessment of complimentary measures</p> <p data-bbox="987 1278 1348 1320">Wilkins Review</p>

# Mandatory Renewable Energy Target (MRET)

Needed or not?

Under 'pure' ETS, MRET would not be needed...but the ETS will be far from 'pure'

MRET needed as insurance mechanism

Also, concrete demand side drivers for renewable energy will deliver the economies of scale required to minimise abatement costs over the longer term

# Mandatory Renewable Energy Target

<b>Garnaut</b>	<b>Green Paper</b>
<p>MRET to be phased out once...</p> <p>‘the emissions trading scheme takes up the load of encouraging low-emissions technologies.’</p>	<p>Government has indicated that MRET is ‘non-negotiable.’</p>

# Research & Development

Public good nature of innovation makes R&D support an ongoing role for government

<b>Garnaut Draft</b>	<b>Green Paper</b>
20% of permit revenues to R&D	\$500 million clean coal fund
Over \$3 billion per annum	Climate Change Action Fund to invest in
International Low Emissions Technology Commitment	'innovative new low emissions processes.'

# Information provision

Public good nature of information makes information provision an ongoing role for government

Information provision minimises 'transaction costs.'

<b>Garnaut</b>	<b>Green Paper</b>
Low emissions options	Low emissions options
Education and training	
Performance rating disclosures for buildings and appliances	

# Progressive Removal of Perverse Incentives

Government policy should not actively work against itself

<b>Garnaut</b>	<b>Green Paper</b>
Australia's Future Tax System Review (Henry Review)	Australia's Future Tax System Review

# Appropriate structure of equity safeguards

Equity safeguards need to work for, not against, emissions reductions

<b>Garnaut Draft</b>	<b>Green Paper</b>
Half of permit revenues to be returned to households	Assistance to be provided through tax and payment systems
Tax, social security, and energy efficiency programs	Household energy efficiency programs

# The proper role for biosequestration

Where are we now? Where do we need to be?

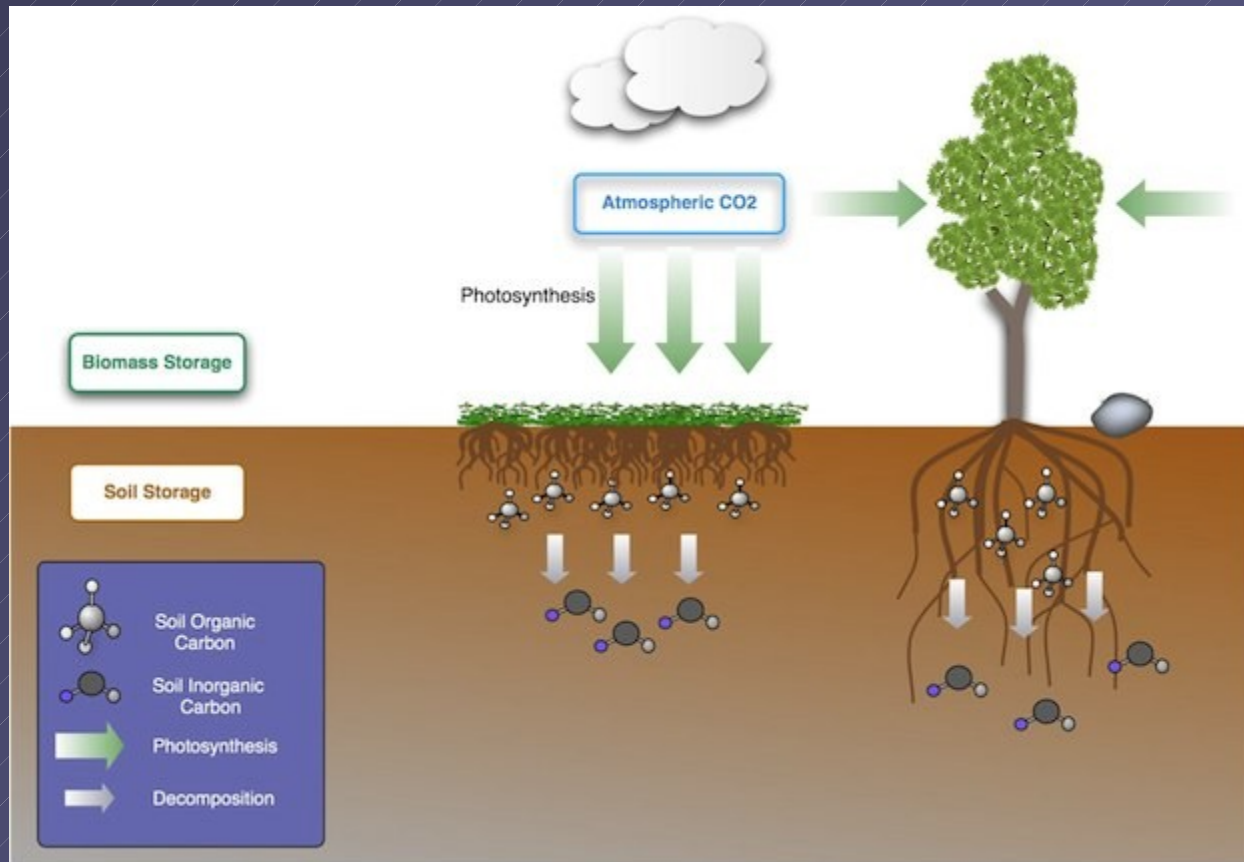
Atmospheric concentrations of CO<sub>2</sub>e at 455ppm  
(2005)

We need to stabilise below 400ppm CO<sub>2</sub>e

# Implications?

We need to address the atmospheric *stock* of greenhouse gases at the same time as we are reducing the *flow* of emissions...

# Biosequestration is the only large scale mechanism we have to achieve 'draw down'



# However...

Current proposals for biosequestration would squander our opportunity to achieve 'draw down'

Swapping 1 tonne of emissions for 1 tonne of biosequestration leaves atmospheric concentrations unchanged

# Biosequestration needs to operate as parallel measure

Biosequestration needs to operate parallel to  
emissions trading and complimentary measures

Emissions trading and complimentary measures  
to address the *flow* of emissions

Biosequestration to simultaneously address the  
atmospheric *stock* of emissions

# How?

One approach would be to establish a Biodiversity Fund financed by permit auction revenues

Pay providers for biosequestration projects that are structured in a way that enhances biodiversity and restores ecosystems

# Other advantages?

Avoids 'offset paradox'

Reduces the cost of inherent permanence issues associated with biosequestration projects

Gives greater weight to ecosystem restoration and biodiversity

# Biosequestration & Biodiversity

<b>Garnaut</b>	<b>Green Paper</b>
<p>Tipped to advocate unlimited offsets for forestry</p> <p>Special section on forestry in final report</p>	<p>Opt-in for forestry</p> <p>Biosequestration to earn credits</p> <p>Biodiversity best managed directly through natural resource management policy</p>

# Professor Garnaut...

*The most inappropriate response would be to delude ourselves, taking small actions that create an appearance of action, but which do not solve the problem.*

*July 4, 2008. National Press Gallery*

# Thank you

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