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Dr Hugh Saddler writes:

Garnaut moves beyond symbolism

I think Garnaut's interim report is an extremely important document. It is much more significant in marking a break from the previous Australian approach on climate change policy than was ratifying the Kyoto Protocol, which was more symbolic of a change in mindset than the reality of actually proposing to do things differently (though symbolism is of course very important, as we saw with the apology last week).

Points I would single out (from a great many) are as follows.

The strong statement, given prominence in the media release, that Australia has more to lose from climate change than most developed countries and potentially much to gain from policies the world would have to adopt is a decisive rejection of the views which underpinned the Howard Government's position, which sought to protect existing industries rather than look to the opportunities new industries could bring:

Contrary to the conventional wisdom which has dominated Australian debate over the past decade, comprehensive global efforts to reduce emissions will play to Australia's strengths. (from Media release)

The strong argument for urgent action to mitigate emissions (".....the case for urgent action is much more compelling than previously recognised") marks a similarly decisive rejection of the gradualist position adopted by previously prominent sources of economic advice on climate change in Australia (following the lead of such US economists as William Nordhaus).

Turning to details of Australian policy design, I think that argument over whether the target in 2050 should be a reduction of 60% or more can be put aside for the moment, *provided that* policy (and specifically the Emission Trading Scheme) is designed so as to allow the government to tighten caps at some future time, if science shows that this is desirable, without the obligation to pay compensation to emission permit holders. In other words, permits must not entitle parties to emit for many years into the future. The decisive rejection of the "expectation that 'compensation' will be made available to firms in the non-traded sector" is a blow to the hopes of the coal fired electricity generators of being given free "grandfathered" permits. Undoubtedly, the way European electricity generators used their grandfathered permit allocations to raise prices to consumers without reducing emissions, thereby achieving massive profit increases (as basic economics would expect), has made clear the inequities of the massive wealth transfers that free permit allocation involves.

The report goes on to make an important and entirely valid distinction between such wealth transfers to a few businesses and structural adjustment assistance to particularly disadvantaged communities and firms.

The recommendation that research into carbon capture and sequestration receive a further dollop of public funds could be interpreted as a political quid pro quo for the coal industry, to make up for need to buy all their permits.

It is also important that, contrary to expectations in some quarters, the report appears to entirely accept the Rudd Government's expanded Mandatory Renewable Energy Target and the way that this will interact with the ETS to achieve a smooth expansion of renewable generation and associated gradual reduction in costs of these technologies.

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