

TRANSCRIPT

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ADDRESS and PRESS CONFERENCE

RELEASE OF THE FINAL REPORT

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Professor Ross Garnaut: Thanks for dragging yourself away from other stories of the day. Right now the full report, final report is going up on the Garnaut Review website and on the 16th of October, the print copy will be launched, published by Cambridge University Press, so between now and then we'll all have to rely on the web version.

I'm pleased to deliver today my final report of the Climate Change Review to the Prime Minister, to the chief ministers and premiers of the states and territories of Australia, and to the Australian community. Tomorrow I'll go across to Perth to present in person the report to the premiers and chief minister who will be meeting as the Council of Australian Federation.

We've done a lot of work over the 15 months since we began and as a result of that, the final report presents a path through the many obstacles that lie in the way of securing a workable and effective global mitigation outcome in relation to climate change. There is a path to Australia being a low emissions economy by the middle of this century, consistently with strong growth in material living standards. The costs of Australia playing its full proportionate part in an effective global effort, while considerable, are manageable. If the subsequent public policy debate follows the approach laid out by the review, we will improve the prospects of Australian and other governments taking good decisions in the year ahead, on a sound basis and with widespread community support.

We will delude ourselves if we think that uncertainty about the climate change science or about the costs of mitigation is a cause for delay. Delaying now will eliminate attractive, lower-cost options. Delaying now is not postponing a decision; to delay is to make a decision. It is to choose not to reduce the risks of climate change to acceptable levels.

Australia will probably be the biggest loser among developed countries from climate change. Our location makes us already a hot and dry country. Small variations in climate are more damaging to us than to other developed countries for that reason. We live in a region of developing countries which are in weaker positions to adapt to climate change than wealthy countries. The problems of our neighbours would inevitably become our problems. And the structure of our

economy suggests that our terms of trade would be more damaged by the effects of climate change than would those of other developed countries.

But Australia carries some major assets into this challenge and we stand, in some ways, to do relatively well in a world of global mitigation. We have the human resource capabilities that are required to make the transition at reasonable cost, including the world-class engineering, finance, project management, and related skills that have been developed in our resource sector and which are the skills that will be required to make this transition to a low emissions economy work. We have large reserves of resources, which will become increasingly valuable in international mitigation efforts – gas and uranium – alongside having as our major export, a commodity, coal that would be hurt by global mitigation unless we find a way of commercially effective sequestration. We have a wide range of low emissions resources within reach, including resources per capita of geothermal power, wind, solar, wave and tidal power that are unequalled amongst developed countries. We have some of the best opportunities in the world for sequestration, both geo-sequestration (underground) and for bio-sequestration.

The report stresses the reality that the case for mitigation is a conservative one. In considering the risks and opportunities, the case for strong mitigation is about mitigation of the risks to the economy, to society, to established political structures that will be faced in a world of unmitigated climate change. It is in our national interest to make global mitigation work and our efforts must be vigorously directed at giving effective global mitigation the best chance of success.

You'll see in the introduction to the report focus on five policy themes that run throughout the report and I'll just mention them now without going into detail. The first is that domestic policy must be deeply integrated into global discussions and agreements. The second is that global and national mitigation is only going to be successful if reductions in emissions can be made and demonstrated to be consistent with continued economic growth and rising living standards. The third theme is the importance of practicality. This is such an important issue. We have to make sure we put our energy into things that can work; into programs that add up, into programs that are internally consistent, where the domestic framework is consistent with the international framework, where the economic dimension of policy change is consistent with the environmental outcomes. And one thing that this report does is make sure that all of its proposals in all of its dimensions add up. They are practical in that sense.

The fourth theme is that to be practical any policies will need to be seen to be equitable. And there's an international and a domestic dimension to this. Internationally, there's going to be no solution unless it is a global solution. Each country, one by one, through its own political processes will have to decide that this is worth doing. That's a big challenge. We won't get a good outcome. We won't even get a half or quarter good outcome if we don't have a framework for global cooperation that is widely considered to be fair. And that is the basis of the focus of moving gradually towards equal per capita entitlements to emissions that underlies the pathway of mitigation that is put forward in this report.

Domestically, if we didn't give attention to the income distribution effects of introduction of an emissions trading scheme or other major mitigation efforts, the largest burdens would be placed disproportionately on low income Australians,

most importantly, because they spend a higher proportion of their income on electricity, gas, petrol, than do the average of Australians. And that's an important issue of equity, but it's also a question of practicality because we're going to get political resistance to mitigation unless we deal with the domestic income distribution question at the same time as we deal with the scheme itself.

You'll see in the final pages of the introduction, a summary of the main recommendations. It's not all the recommendations; as you go through the report you'll see reference to other issues where we've got explicit or implicit policy advice to one or other level of government in Australia, but we've put the main recommendations together at the back of the introduction and these recommendations together add up to a necessary and sufficient set of policies, a package that will facilitate the effective, efficient and equitable transformation for Australia to a low emissions economy by the middle of the century.

The focus on the need for a global agreement requires the calibration of our own contributions to an international effort, in terms that are consistent with a global distribution of effort that is widely seen as being fair. Otherwise we won't get India to sign on, Sri Lanka to sign on, Brazil to sign on, Kenya to sign on. And our recommendations for emissions reduction for both the 450 parts per million trajectory and the 550 parts per million trajectory comes from the development of a global allocation of effort that has a reasonable chance of being seen broadly as being fair. As I said in the supplementary draft report, in preparation for Copenhagen, Australia should make it clear that if the world is signing on to a mitigation program, that realistically adds up to 450 parts per million and stabilisation, then we should be prepared to play our full part in that and let it be known that we will play our full part in that. And that would require our being willing to reduce emissions from 2000 levels by 25% by 2020 and 90% by 2050. While desirable for Australia and the world, as I said in the supplementary draft report, such an agreement will not be easy to reach. It will place constraints on emissions from both developed and developing countries that go beyond what is being discussed and more importantly, planned for, for any but a few countries.

The chances of an effective, soundly based agreement that adds up to 550 parts per million, at this stage, are much stronger. An effective and realistic agreement around a 550 parts per million objective would be a major step forward in its own terms. It would also support the beginnings of international cooperation in emissions reduction and the development and transfer of low emissions technologies. That would build confidence that ambitious mitigation is consistent with continued economic growth in developed and developing countries. It would therefore be a path towards a subsequent agreement with more ambitious mitigation objectives. Without qualifying its support for the 450 objective, the Australian government should make it clear that it is prepared to pay its full proportionate part in an effective international agreement to hold greenhouse gas concentrations to 550 parts per million of carbon dioxide equivalent. This would involve reducing emissions by 10% on 2000 levels and by 80% by 2050. And as I've mentioned, I think that the arithmetic of that outcome looks as if it's consistent with a set of obligations across countries that are within reach and we should not let go of that. We should make sure that at least that comes out of Copenhagen.

In the absence of a comprehensive global agreement calibrated to achieve a fine concentrations outcome, and in the context of another limited Kyoto style

agreement with commitments only by developed countries, Australia should take the first step at the end of the Kyoto period and the period 2013 to 2020, along a linear path towards reduction of emissions by 60% by 2050. And that first step would involve a 5% reduction on 2000 levels by 2020. But this world of developed countries alone being involved in mitigation is a difficult world – difficult for the global mitigation effort, in fact, it can't achieve a good global outcome and it's costly for each country. As was clear in the data presented in the supplementary draft report and presented again in the final report, the cost of achieving a 10% reduction by 2020 on the 2000 levels will be less than the 5% reduction in the more limited world, without a global agreement, because it's more costly if you're doing it without a global agreement. For that reason, any effort prior to an effective comprehensive global agreement should be short, transitional and directed at achievement of a global agreement.

The final report sets out views on the design of an emissions trading scheme that would allow us to achieve our domestic mitigation goals at minimum cost. We note that a well-designed emissions trading scheme is superior to a carbon tax. We also note that a carbon tax would be superior to a flawed emissions trading scheme. The final report says that the integrity, efficiency and effectiveness of the emissions trading scheme will depend on a number of design features; the establishment of an independent carbon bank with all the necessary powers to oversee the long-term stability of the scheme; the implementation of a transition period from scheme commencement in 2010, to the conclusion of the Kyoto period at the end of 2012, involving fixed price permits; payment to trade exposed emissions intensive industries, designed to address the failure of our trading partners to adopt similar policies to constrain emissions, which is not the same as compensating the trade exposed industries for Australia having an emissions trading scheme. The final report says that no permits should be freely allocated. The trading exposed permits will be handled through a system of credits and beyond, not actually free allocation of permits, but beyond the trade exposed there's no case for free allocation of permits on any other basis, on any other grounds.

The costs of the scheme can be substantially reduced through international trading permits and the final report advocates judicious linking with international schemes. It advocates that scheme coverage should be as broad as possible within practical constraints and once we have an emissions trading scheme in place doing the job, there won't be a useful role for other instruments of policy, which have as their aim the reduction of emissions and so the report says that the mandatory renewable energy target should remain unchanged with the current nominal price cap of units, so that its role will be automatically phased out over time as the carbon price rises over time.

Consumers will wear the majority of the cost of an emissions trading scheme, paying more for a range of goods and services as businesses pass on the emissions price, and in particular, a major part, if not all of the costs faced by electricity generators will be passed down the chain from electricity generators, through distributors and retailers and finally to households – households paying higher prices for electricity. Petrol and food prices or general prices will increase to some extent as a result of the ETS. The introductory impact of the ETS under the arrangements proposed in the final report will add about one percentage point to the consumer price index. The use of permit revenue with all of the permits

being sold competitively, the use of the major part of that revenue to offset real income effects on households in the lower half of the income distribution can substantially ease the issues of equity of which I spoke earlier. It can also be crucial to stopping this percentage point index in the consumer price index sparking off a longer term inflation. As the Governor of the Reserve Bank noted in his evidence to the Monetary Policy Committee of the parliament on the 8th of September, there's no reason why this once for all increase should become part of an inflationary spiral, but you have to have a strategy for stopping that happening and the use of significant part of the permit revenue in the way we've advocated can be an important part of the strategy to avoid a continuing inflation and the need for subsequent tightening of monetary policy. We saw an example of that on a much larger scale, because the price increases were much bigger, in the introduction of the goods and services tax, where accompanying adjustments to tax and social security took some of the inflationary weight out of the system and that turned out to be very successful.

There's a lot of emphasis in the final report in the role of innovation, of technological development in relation to low emissions technologies. Globally, there's a need for a big increase in public investment in research, development and commercialisation of low emissions technologies. Australia should play its full proportionate part in that and we've got detailed recommendations on how we should look at that global commitment to investment in the new technologies and Australia's role in that. And because that's so important, we're suggesting that 20% of the value of permits collected through the competitive processes of allocating permits should be invested in the research, development and commercialisation of the low emissions technology.

This is a diabolical policy problem, but it has a saving grace. And that is that the extraordinary interest of Australians gives the governments a base of support that has not been there in anything like comparable degree for other major structural changes in the economy under the various reforms over the past 30 years. Whether you're talking about the reduction of protection, whether you're talking about big changes in the tax structure, the goods and services tax, whether you're talking about privatisation. There's a much higher level of community support for action in here than on any of those other structural issues and we find something similar in many countries. So what looks, at first sight, to be a problem that's too hard politically, globally, and in Australia, is different politically in this way. It's interesting why it is so. I'm not sure that I understand very clearly why it is so, but it is a fact and it's an important ingredient when judging the prospects for success domestically and internationally.

In handing the final report to the Prime Minister, the premiers, the chief ministers, I've completed my task and I've completed that with the view that there is a solution to the diabolical problem. It is a global solution to which Australia has much to contribute and in the achievement of which, Australia can make a difference. It's not an easy solution for Australia or the rest of the world, but there's a chance, just a chance, that humanity will deal with this matter in a way that future generations judge to be satisfactory. If we fail, on a balance of probabilities, the failure of our generation will haunt humanity until the end of time. Thank you.

Q: Professor Garnaut, you mentioned that there's an amount of goodwill in the public to address this problem, yet you've also been criticised for proposing a medium interim target that is more modest than many scientists would advocate, have you in some way...or can you be said to have second guessed public opinion about this or to have read the political winds rather than the scientific evidence?

Professor Garnaut: I'm quite clear in the report that a straightforward reading of the mainstream science is that a 450 parts per million stabilisation objective or lower than that makes sense for Australia. And I say very clearly in the supplementary draft report back on the 5th of September, and a similar view presented in the final report, that we should make it clear that if there is a commitment in the world to hit there, then we should be part of that. In fact, we should facilitate that by making our willingness to play our full proportionate part in that clear at the beginning, so that there's no...I'm not arguing with the science on the objective, but it's part of my responsibility to work out what is possible or to advise governments and the Australian community on what is possible. And you don't get to a good end point simply by wishing it. You have to have a global program that adds up. You have to have an Australian program that is consistent with a global program that adds up. We've done that. We've developed an Australian program that's consistent with an international program that adds up to 550 parts per million. We've developed an Australian program that's consistent with a global program that adds up to 450. I, myself, will be delighted if the state of play in international discussions changes, progresses to the point where our willingness to be part of a 450 parts per million goal can be made effective, but there's no point in hiding from reality and at this time, my judgement is 550 is more readily within our reach. And let's not let go of a good objective for a risky chance on a better objective.

Q: Professor Garnaut, since you first spoke about the assessment that 550 parts per million was what you thought the most realistic thing that the global negotiations could agree on, a lot of people have differed with your view. Can you point to people around the world who agree with that assessment? Are there government advisors? Are there other governments who also think that that's probably the best outcome we can hope for?

Professor Garnaut: I'm not saying it's the best we can hope for. I'm hoping for 450.

Q: Sure.

Professor Garnaut: And I'm saying the Australian government should more than hope for 450. It should say it's prepared to do its full proportionate part if the world is willing to go to 450. That's what I've said in the supplementary draft report, that's what I've said in the final report. Now, I've given my honest assessment of what is readily within grasp. The difference between 550 and 450 is substantial. It's substantial for Australia, substantial for the world. The difference between 550 and failure of mitigation is immense and let's not lose the chance of locking down something that's achievable.

Q: But my question was, have people come out of the woodwork since you first did, you know, express that view and agreed with that assessment? A lot of people have vocally disagreed with it. I'm asking you if anyone has agreed with it.

Professor Garnaut: There are any number of well placed people who think that 550 is extremely ambitious.

Q: Having delivered your final report, how confident are you that the Rudd government, which has been talking tough on the need to address climate change, how confident are you that the government will have the political resolve to introduce a scheme, given what's happening in financial markets as we speak, to introduce a scheme that is not flawed?

Professor Garnaut: The current Prime Minister, when he was Leader of the Opposition, and all of the premiers and chief ministers asked me to do an independent report and I've done that and when you go back to your offices you can look at that. That's my job. It's the job of governments to take decisions on policy. I think that what I've developed in the final report is a set of proposals that are realistic, that could be implemented with high confidence of success in Australia. I hope that the government will find the arguments compelling, but it's much better to ask that question to Kevin Rudd or Penny Wong than to me.

Q: What's your assessment of the international collective will, given what's happening economically at the moment? Do you think it could slacken a bit – people may be scared off doing anything that even may be perceived to damage an economy?

Professor Garnaut: Well if the Copenhagen meeting was today, the day after the biggest points fall in the Dow Jones Index in history, and the day of a – last time I looked – a 5.5% reduction in the Australian index, following a big fall yesterday, then there'd be nervousness about it. But the meeting is not today. Financial crises are short-term phenomena. They can damage the economy, they can do great damage to the economy – I'm not underplaying its importance, but they don't last forever. They have very large costs, but they do their damage and they move on. I'm the joint editor of one of the definitive works on the East Asian financial crisis. It happens to be an area of economics that I'm very interested in and if I hadn't been so busy finalising the report; I would have been taking very close interest in what's happening in the United States. Climate change is a long-term structural issue. By the time the world is addressing these issues in Copenhagen, the financial crisis, as a financial crisis, will have resolved itself. And the climate change problem will still be there. It never makes sense to deal with long-term structural issues with much of an eye on short-term financial issues and I can illustrate that in a very concrete way. I brought down my report, Australia and North East Asia Ascendency to the then Australian Prime Minister, Bob Hawke, gave it to him in October 1989. It was made public in November 1989 – we had shorter timeframes for making things public these days and I then advocated the complete removal of the rest of Australia's protection by the year 2000. In discussions at Cabinet level in subsequent months, there was a fairly strong appetite for going most of the way on that. And these things take a long time to work through and the Prime Minister of the day had a view that he was going to take a package to parliament early in 1991. Well, in December of 1990, the Bureau of Statistics came up with data, the second quarter in a row, with

negative GDP. We had a recession and someone said on that day, it was a recession we had to have. The universal commentary of the commentariat of the political class was that we should put off discussing the largest reduction in protection in Australian history because we were in recession. The Prime Minister of the day took the view that structural changes like this would be best applied in a growing economy, but given the timeframes, the time lags for implementation, the economy would be through the recession and back into a growth phase by the time the reduction for protection began. And the announcement and the plans were for reduction and protection to begin in 1992 and be completed in 1996. as a result of that perspective, the Prime Minister introduced his statement in the first half of 1991 – in my mind it was March of 1991, Michelle might remember more clearly – and the timing turned out to be exactly as I'd advised the Prime Minister and as the Prime Minister judged that it would be and the timing of the protection and reductions turned out to be fortuitous in the context of the beginnings of growth out of recession.

Q: What do you think are the chances of China and India actually reducing their own raw emissions?

Professor Garnaut: Well, in setting out a global allocation of emissions that adds up to a global solution, I was being realistic. Countries that are growing very rapidly from a relatively low base, low base compared with the developed countries, have very strong growth in energy use and a lot of those, certainly China and India, the two that you've mentioned, have a very big coal component in that growth. So what I've done is built a framework of distribution of the burden across countries that takes that into account. There is no way that Prime Minister Manmohan Singh in India is going to risk leaving hundreds of millions of village rural Indians in poverty as part of an emissions reduction program. What's asked of China in the proposals in the final report is that it doesn't cut emissions up till 2020, but it reduces its growth in emissions to half the GDP growth rate. That will make a huge difference. Emissions have been growing at the GDP rate so far this century. For India, for most developing countries, the guiding idea is one of contraction and convergence, which has been strongly advocated by the Indian government and that has convergence on equal per capita entitlements at some time in the future. We've taken 2050 and countries can gradually move towards that. So if you are well below where the world will need to be per capita in 2050, then your emissions can rise through that time, and India has emissions per capita about one tonne per capita now, compared with 25 – 30 in Australia, compared with four or five in the world now, compared with two, where the world will need to be in 2050. So India per capita can double emissions over that period. But you asked whether China and India can now cut emissions – no, not right now, but they can constrain emissions growth and the package of international proposals that's in the final report will give them incentives to do so and in due course, especially the higher income of them, especially China, for example, will have to come down absolutely, but the proposals in the final report give headroom up to 2020.

Q: Taking on board what you said about this being a long-term issue and what we're seeing in the financial crisis would be a short run one, but looking through the eyes of the US Administration and through Congress, what is the chance that they would impose any new cost on businesses or their taxpayers in the next 24 or even 48 months?

Professor Garnaut: Well, unfortunately the United States Administration has had a habit of spending more money without imposing taxes on its taxpayers and that's one of the reasons that US policy doesn't have the scope at the moment that it otherwise would. Obviously, what is happening now in the United States is a significant source of uncertainty, anxiety, right through the polity. How a new president will address that, we will have to wait and see. If a new president addresses this in the way that President Hoover addressed the onset of financial crisis in 1929, we will see a president acting timidly and not taking on things like this. If a new president adopts the sort of approach that was taken by President Roosevelt when elected in 1932, then the idea of making large investments in bio-sequestration, in new technologies, developing new car and building the demand for an electric car – the sort of things we heard from Barack Obama in his acceptance speech, and we've heard similar things from John McCain, would seem attractive. I don't think that the short-term anxieties are going to determine the outcome of this. A lot is going to depend on the character of the United States leadership after November, and about that, there are lots of open questions.

Q: Professor, you say there is a chance, just a chance, that humankind will get this right. I think they're your words. Doesn't that imply you're a pessimist? That is to say that you're realistic judgement after this process is that there is, in fact, a bigger chance that humankind won't get it right?

Professor Garnaut: Oh, I certainly don't think it's a certainty we'll get it right. What I hope is that honest, realistic recognition of the realities will change what is politically possible.

Q: That's your hope. What's your judgement?

Professor Garnaut: We are entering territory here that humanity has not been in before. I can't think of another crisis, another major threat to the stability of organised society, organised humanity that had such potentially destructive effects as this. Humanity, in response to lesser crises, has sometimes been prepared to make very large political changes. In response to this larger change, larger things might be possible. I can't say that it's guaranteed. I think that the chances of success will be very much greater if we have before the communities of Australia and other countries, a realistic assessment of the odds and one of the things that this report does is assess realistically the odds in relation to costs of climate change. A lot of the discussion that's gone on so far has been tempered by a sort of hope in parts of our community and other communities that the problem will go away. We won't get a strong political solution here and in the world until there's a realistic facing up to the risks. I can't say, on the basis of past experience, whether humanity will respond to a realistic facing up to the problem by expanding what is politically possible; we have not been in that territory before.

Q: Professor Garnaut, there seem to be noticeable differences between this and the report that came immediately before. Going back to your original draft report, are there any significant differences between that and the final report or was it a matter of filling in detail? Any changes of tack, changes of direction?

Professor Garnaut: There are no changes of direction or policy or the big lines of analysis, but there is some very substantial additional material. I draw your attention to chapters 20 to 23, which in detail plot the path of Australia's transition to a low emissions economy – chapter 20 on the energy sector, 21 on the transport sector, 22 on Australian rural land use, and then 24 bringing together all of the economy-wide adjustments. Here I tell in detail the story of how Australia gets from where it is now, the developed world's most emissions intensive country, to a country in the middle of the century which is operating, in the case of 550 objectives, with 80% less emissions than now, or in the case of a 450 objective, 90%. There's detail in that; it's based on the joint modelling with the Australian Treasury. It's realistic stuff. It adds up. It shows that we can do it. It doesn't represent a change in policy, but I think it is important new material.

Q: You said you used Treasury modelling in this report, what does it show in terms of the flow-on cost to consumers and businesses in terms of the 450 and the 550?

Professor Garnaut: Well, the biggest impact on consumers is electricity prices. For residential prices, and that seems to be what people worry most about, household prices, the increase within a 550 objective would be a 21% increase in electricity prices to the residential community. It would be 37% at 450. The overall impact on the consumer price index of what we're advocating, the fixed price start up, which happens to be a start up that will lead smoothly into what the models say will be generated by the market with a 550 scenario, will be an increase in the consumer price index of about one percent. So that includes electricity, petrol, everything. That's not insignificant, it's important. It's much less than the GST, to put it in perspective, but it's significant. They're the main parameters.

Q: Professor Garnaut, can you explain again why Australia should go first in all of this, when so many economists are arguing that there's little to be gained from Australia's economy and globally there will be little to be gained environmentally either, being such a small part of the overall climate change problem?

Professor Garnaut: Well, whether you like it or not, we have no chance of going first. There are 27 countries with emissions trading schemes that are miles ahead of us. If mitigation is happening through regulation... California and some of the western states of the United States are miles ahead of us. California has had no per capita increase in energy use since the early seventies. You look at what we've done since then. So let's be realistic. Even if we wanted to be, we have no hope of being first. If that were a race we wanted to win, we have no hope. If that's a race we didn't want to win, we've got our wishes. Why should we do something now? Because doing something of moderate dimension now will place us amongst the developed countries, in a position where we're showing that something can be done. I think we should be cautious about how much we do alone, because it costs more, but every developed country agreed at Rio de Janeiro and at Kyoto that we would take some steps. The understanding at Kyoto was the developed countries would take some steps up to 2012 and the developing countries would join after. Two countries didn't honour their agreement with ratification of the treaty – those two countries, no need for me to mention who they are – effectively vetoed the process that the international community put together 11 years ago in Kyoto. I don't think we want to be in that

position again. Australia is a country of modest dimension, but we are big enough to veto a global effort because unless all of the developed countries are making their contribution, then there is no chance of the big developing countries following.

Q: Professor Garnaut, you've set, as I understand it, a detailed path of how we get to these mitigation targets, in keeping with global agreements. Is there anything in the government's green paper that would put those paths in jeopardy? Anything in the green paper that you think doesn't work?

Professor Garnaut: Well, I haven't made a point of comparing the two papers. The green paper is there for public discussion. It's quite clear that there are some issues on which my report does not say the same thing as the green paper.

Q: Such as?

Professor Garnaut: Two examples – the approach to trade exposed industries, where in the supplementary draft report and now this final report, I've suggested a different formula that I think is better in principle and will turn out to be practically more manageable because it is clearer in principle. Another area of difference is that the green paper opened up the possibility – not the certainty – the possibility of compensation payments to electricity generators supplying the domestic market. I've had a very close look at that. I don't think there is any public policy reason for compensation payments to electricity generators. There are other smaller things, but they're the two fairly big ones.

Q: One has to be a fair age to remember the effort Australia made in the Second World War. You're not one of those, but you will know the affect on the economy of a million men being under arms with a population of about seven million during the Second World War. Would you liken that effort to be greater than we'd need now or lesser? Or does it just illustrate that your problem is not as huge as we might think it is?

Professor Garnaut: If you put it in those terms, this problem is very small compared with the resources we mobilised in the Second World War and very, very small compared with proportionately the huge resources we mobilised in the First World War. They are in no way comparable. Between now and 2020 we would be investing under the most ambitious scenario, the 450 scenario, the most ambitious scenarios we've actually modelled, 2% of GNP. I haven't got the number in my head for the First World War, but I think it was up near 20 – 30% of GNP and maybe more. No, we're talking about something that is very small in those terms and if you look at what the world invested in war, for example, in the Second World War, and then what the world needs to invest to reduce the risks of dangerous climate change to acceptable levels, it's very small indeed compared with that. It's even small compared with current global defence budgets.

Q: Professor Garnaut, when I look at all the submissions from industry bodies, particularly in trade exposed, say, in the CPRS, they're all focused on how to escape a carbon price as long as possible. There's virtually no acknowledgement that I can recall, of the economic costs of inaction, which is what your message is. The government said they back your message. Has the government failed in its consultations with industry to get that message through to industry?

Professor Garnaut: Well, two points there. What will matter is not what business says to the government, but what government does in response to that and we don't know that yet, so I'm not going to say government's failed. But also, we have to be realistic. Why would you expect public policy advice in the national interest from the chief executive of business, who's responsible to his board and shareholders for maximising the profit of that business? I think you are just looking at the world through the wrong end of the telescope if you think that that's where you go to for objective public policy advice. And that's in no way a negative statement about business; that's what business does. It's their job, chief executives are paid to maximise the profits of their business. They would be in breach of their duties to their shareholders if they put forward proposals that were in the national interest that were against their narrow corporate interest.

Q: Isn't it in the long-term interest, though, to protect long-term investments?

Professor Garnaut: Well, I think that it's the community, it's a political system. It's the independent centre of our society that has to take that long-term view. A chief executive of a business has a contract to deliver certain things in a year, in a quarter, in three years, five years. There will be nothing in that contract to talk about whether there's a coal market in 20 years time. That's just the way business works and we should be realistic. We should not expect unreasonable things of our business community. We should not think bad of them for acting in their corporate interest – it's their job, but the independent centre of our polity has to keep their views in perspective and understand where they're coming from.

Q: Professor, the Opposition calls this process a shemuzzle now; ostensibly arguing that's because you are so marginalised and this report is so marginalised in the Prime Minister's office and is one input among hundreds. Can you reflect for a moment on how well connected you feel at the end of this process to the Prime Minister's office and do you expect that this final report will still be, as it was originally intended, the blueprint for Australian policy on this? Or is it just one input among hundreds?

Professor Garnaut: Well, some people have said it's an input. This report will stand or fall on the quality of its analysis. This report deals comprehensively with all of the issues, domestic and international, in a way no other work has in Australia or elsewhere. If I've done my job well, it will end up being very influential, but that's, in the end, what happens, but I've done my job. What happens from here on is going to be the result of a process of public discussion, government response to that. That is the next stage of things and I don't want to second guess that.

Q: Professor, you said that a carbon tax would be better than a flawed emissions trading scheme.

Professor Garnaut: Yes.

Q: Can you define what is flawed, in your view?

Professor Garnaut: I've talked quite a lot in the report about the mistakes you could make. Certainly, an emissions trading scheme that had great continuing

13

uncertainty, negotiations with business on an ongoing basis over free permits, so that businesses effort was going into trying to influence government rather than getting on with the job of developing low emissions technologies. I've discussed that in the final report, but the biggest risks for the emissions trading scheme is that we won't get a nice principled, clear cut, simple, competitive arrangement – that we'll have an arrangement that involves continuing negotiation and that that will give us a high degree of uncertainty and higher costs of investment and higher transactions costs all round. Ok, thanks very much.

END 59.26