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ROSS GARNAUT:

Thanks Mr Chairman. Like Chris Richardson this morning I find it a great pleasure to be back at the conference. I think that Chris and I ... might be ... every one of them; spoken at every one of them since I worked with [inaudible] and Paul Kelly at the first one in 2001.

In retrospect, that opening address I gave then was somewhat off the point. I gave a slightly triumphal review of the reform era begun in 1983 and talked about the [inaudible] context of Australia's miserable long term economic performance and lowest productivity growth of all of the countries that are now developed from federation until the early eighties. Then the transformation that occurred in the last sixth of the century. And I talked in that initial address about an ongoing transformation of Australia.

When I spoke here, in 2004, unfortunately, I had to make the title of my address 'The Great Australian Complacency of the Early Twenty First Century'. This is formally the last day of my re-immersion in climate change policy. John was a bit too generous in talking about my deep involvement for a decade. I was somewhat involved - briefly involved - as Chairman of the International Food Policy Research Institute, based in Washington for a number of years, where climate change was identified as a large long term threat to global food security.

It had a lot of work going on in Africa at the time, and in India and Latin America and in the United States on those questions. But I must say it didn't come to the centre of my mind as a major economic policy issue, a national policy issue, until I was asked by the Premiers and Kevin Rudd to undertake my climate change review, a little over four years ago.

When I handed that first review to the Prime Minister on a fateful day - September the thirtieth 2008 - it happened to be the morning after the night of the largest points fall in the New York Stock Exchange, in history. I handed the report to the Prime Minister and said that I had completed my presumptuous task. Well, famous last words.

After the formation of the current Australian Government I was asked to update my climate change review and to be an independent expert member of the Multi-Party Committee on Climate Change. The update process entered into its intensive phase when I brought my secretariat together at the beginning of November. I subsequently produced and released eight detailed update papers.

There's the one on international development, one on transforming the electricity sector, two supplementary notes on important issues; one on governance arrangements for an emissions trading scheme, and one on a ten year budget for carbon pricing, which I released in May.

And then, on the 31st of May I presented the book form; the final report, which synthesises the messages from the ten major papers. I

presented this to the Prime Minister. All of these documents are on the web - www.garnautreview.org.au. The update papers, but as John kindly said, I hope not the final report - are fairly heavy reading. But I commend them to you. I know that at least two people in the audience have been carefully through the lot because they discussed it with me: Max Gordon and Malcolm Turnbull. Maybe some others have as well.

This discussion of carbon pricing is occurring at the best of times for structural change in the Australian economy. They're exactly the terms that were used by Glenn Stevens, the governor of the Reserve Bank in speaking to the Victoria University [inaudible] in January. He gave a number of reasons why a time of exceptional prosperity, a time when Australians' average incomes exceed those of the United States for the first time for a hundred years; a time when our terms of trade are at record levels. This is the best of times for structural change.

Certainly the best of times, economically, but it's a hard time, politically. Because the source of structural change and high terms of trade is the booming investment in the resources industry, and it is forcing other structural changes in the economy. And this structural change is not easily identified by people affected by it as coming from one or other source. And so pressures to structural change associated with carbon pricing are bound to be mixed up with structural change coming from a much bigger structural pressures from the resources boom that was so ably discussed in the introductory session this morning.

Much of the media and public discussion of climate change policy over the past nine months has been about the crudest and most distorted discussion of a major public policy issue in my long experience of deep participation in Australian public policy. The facts are ignored, the rules of logic violated, and it's rare for people expressing very strong opinions on particular issues to go back and actually read the facts and often the documents upon which they're commenting.

The interest group pressures have been extreme; leading me to express concern in the final report, that we are reverting to type and reverting to the distorted political culture, the political culture of an [inaudible] society that gave us the worst productivity performance of all the countries that are now developed through the first eight decades of our federation.

And yet, out of this excess of noise and, unfortunately for participants in the process, instability, is emerging a satisfactory resolution of Australia's part of what I described, four years ago, as a diabolical policy problem. As the Minister and the Senator have indicated, we're heading towards the legislation of carbon pricing at the centrepiece of a set of policies that will allow Australians to do their fair share in the global effort to reduce the risks of dangerous climate change and to do it at reasonable cost.

Looking at the character of the public discussion of the past nine months this would be an extraordinary result. Emerging from this past decade of the great Australian complacency in the early twenty-first century then a year of questionable discussion of climate change policy. Such a result would be a surprising step towards an economically and environmentally rational reform with unprecedentedly long time horizons.

This is a reform that the costs come early and the benefits will come later. Huge benefits, necessary benefits if we care about future generations of Australians, of long term benefits. And the importance of this reform doing it this way through carbon pricing rather than comprehensive regulatory intervention, that's the alternative.

The alternative is not taking action. Both government and opposition have similar objectives in reducing emissions. The choice is between doing this in a regulatory way or a market oriented way. A regulatory way or through carbon pricing.

The defeat of carbon pricing this time around after many years of effort by many people and many governments would not be the end of climate change mitigation policies. It would however, be the end of any hope of climate change mitigation policies that reduce emissions at reasonable cost.

If carbon pricing were defeated this time around it would open the way to myriad regulatory interventions. It would raise costs directly. There would be no amenity to reduce revenue from carbon pricing because regulatory intervention doesn't raise revenue. To introduce productivity raising tax cuts as a form of compensation for low and middle income earners.

Most importantly of all, a return to the days of regulatory intervention would entrench the deterioration of Australian political culture to return to the old political culture, which regrettably we've seen in the first decade of this century.

Fortunately, that unhappy outcome now seems unlikely. The legislation of carbon pricing provides an opportunity to build an historic turning point. It provides an opportunity to build a foundation for an alternative to the great Australian complacency.

The outcome of the current deliberations on carbon pricing will not be perfect. They come out of a highly contested political process. It will not be in every detail or what I recommended [inaudible] but it will be, it will represent an economically and environmentally rational approach to a really difficult policy problem.

It will contain elements that provide opportunities for improving the scheme, raising its level of ambition in an economically efficient way over time. When the details eventually come out, and I've got no idea when an agreement will be completed, watch for the governance arrangements because they are the keys to protecting the Australian policies and process from distortions through pressure from interest groups in future. And also the keys for continued smooth transition towards greater ambition over time in line with international movements towards greater ambitions.

The outcome that is now in prospect has had to overcome some pretty high hurdles. But when I've written about the history of the Australian reform era, when others have written about it they've given rather a large place to the positive role playing by highly professional, committed, conscientious Australian media [inaudible]. The *Financial Review* in the late sixties, early seventies. Peter Robinson, Max Walsh, [inaudible].

They transmitted the analysis that was going on in the universities - well the universities that [inaudible] and others. The work was going on in the tariff boards, through the Australian community which laid a basis for the reforms that were made possible in the last sixth of the last century.

Through the reform period through the Eighties and Nineties we had a high quality media and in my mind names that come quickly are Paul Kelly, Alan Wood, Michelle Grattan amongst others who also were able to explain to the community complex ideas. That the community never felt really comfortable with but which once the community was exposed to all of the consequences would provide a basis for political action.

I reflect upon the media treatment and I don't want to be too pointed but I'd say especially the *News Limited Group*, reflect upon the media treatment of this complicated issue of immense importance for long term Australian prosperity. And I don't think many people would say we've had a media presentation of the issues as thorough, as reliable, as informed as we had as a basis for the reform era of Australia in the last sixth of last century.

I know from my close friends so amongst the senior journalists of *The Australian* there is disquiet about that and I don't think my judgements, or my feelings about that are unusual.

I'll just mention a couple of the issues, two issues that have been subject to considerable distortion among media discussions. One the international context and then I'll get back to energy, the main subject of this session.

On the international question I had to come to grips with a major change in the framework of international discussions between 2008 and my update in 2011. Update Paper Two and two chapters of the final report carefully analyse the changes in the international situation over that period.

That follows three careful chapters in the original report identifying the critical international context. I applied the framework for considering Australia's fair share in the global mitigation effort that I developed conceptually in the original report and this one.

There has been a somewhat rabid reaction to the conclusions of my analysis from some parts of the media and I haven't got time to go through that now.

But I'd like us to focus on what I said about the United States policy and how that has been treated in some, not all, some of the media treatment. I noted that the United States Government position on climate change was clear but in domestic politics contested.

I noted that there would be no carbon pricing in China and the United States for the foreseeable future. I also noted, and this was based on personal discussions with the senior officials of President Obama's cabinet and administration who report directly to him on climate change policy.

People like Steven Chu, Secretary for Energy, Nobel Prize winner in Physics, expert on climate change. People like Todd Stern, President Obama's ambassador on climate change, participant for Obama in the international discussions. I reported faithfully in this report on the outcome and what I learnt from those discussions and others in the administration series of meetings with the United States ambassador, who were very helpful in giving me access to relevant information.

Meetings with both Republicans and Democrats on the Hill in Congress. I've been concerned about the misrepresentation of United States policy and action on climate change in parts of the Australian popular discussion.

This is a problem for Australia on climate change policy. It's a problem for Australia on economic policy. It's a problem for foreign policy when we presume bad faith in the United States Government and yet that presumption has become part of the Australian popular discussion in parts – as I say only parts – of the media.

Not all of the media. The United States ambassador took the trouble to brief Lenore Taylor of *The Sydney Morning Herald* to support my interpretation on some of the key questions.

Now for energy, not quite so much is at stake on the energy question but we've had similar a dumbing down of discussion and similar excited reporting on some particular questions. I could give a dozen examples.

I'll mention just one, full front page of *The Australian* talking about an eleven per cent increase in electricity prices resulting from various renewable energy interventions.

Now if you read my report I've been a strong critic of the distortions, the unnecessary cost of our renewable energy programs and I've argued for seeing the introduction of carbon pricing as a way gradually to phase out such things.

So I'm sympathetic for the critique that was being made but the front page of *The Australian* invited us to think that electricity prices will increase by eleven per cent because of these things and you go back to the documentation upon which this was based, we're talking about, you know, a three per cent out of thirty per cent which was eleven per cent of the actual increase.

You won't find that out in that scary front page. I could give a dozen examples.

The transformation of the Australian electricity sector and energy sector is a very important part of the Australian transition to a low carbon economy and it's important because electricity is currently the largest source of emissions by quite a margin. Our per capita electricity emissions are exceptional mostly because of our exceptionally heavy reliance on coal, some of it reliance on high emissions brown coal.

But the transition in the electricity sector is also important because electrification of transport is going to be an important part and it might be the cheapest way of decarbonising the transport sector and you need a low carbon electricity sector for that to be a step forward and it's going to be very important for decarbonisation of some parts of the industrial sector.

So the transition in the electricity sector is going to be crucial to the transition to a low carbon economy.

A big structural shift eventually will be required and as I say in the report a carbon price of twenty to thirty dollars will get us started.

One point I'd like to say about the transition within the electricity sector is that as the minister said earlier we do have a functioning electricity market. It's not perfect but not a bad one and one that can handle quite large shocks at various times.

It handled a big shock during the global financial crisis when Babcock and Brown went belly up and left high and dry its power generating subsidiaries [inaudible] the electricity market handled that.

So I'd emphasise very strongly the capacity of the electricity market to handle shocks without great interventions and above all without huge payments of public money for not very clearly defined purposes but I have suggested some back ups for energy security that I don't think would be necessary but which will ease the anxieties about that transition.

Now if in addition, as the Australian Electricity Market Commission has suggested, there are lump sum payments to some generators, I don't think that that's necessary but it doesn't distort the environmental benefits of the program, it's simply an unnecessary transfer of income

from one part of the community to another but I'm not going to criticise that on environmental grounds.

In the transition to a low carbon electricity centre in Australia we are very much mindful that we've been very successful as a country in a high carbon global economy. We're the world's largest exporter of coal and as the minister said emerging as the largest exporter of natural gas.

We've also got extraordinary resources that will be highly valuable in a low carbon global economy. We've got by far the world's richest per capita resources of insolation - solar energy - our wind resources in Southern Australia are as good as anywhere on a per capita basis richer.

The technologically under developed geothermal and wave resources are exceptional. There was some discussion in this morning's session about how our terms of trade will be affected by other countries' mitigation. That's a sound point that was made by Warwick McKibbin.

We know terms of trade will be affected negatively by other countries mitigation and China has a high ambition to substitute nuclear and renewables zero emissions power for imported Australian coal. I think that we should keep in mind that that sort of transition is going to be important.

But our own – one thing that I agree with everything that Warwick said this morning except for one point, I think his analysis of the risks in the terms of trade was very sound, very thought provoking but our own mitigation won't damage our terms of trade, won't damage the price of coal relative to imports.

The experience of the Queensland floods shows that it will actually put them up at least for a while but other countries' mitigation will affect our prospects for coal. Other countries' mitigation is creating part of the source of the boom for natural gas and the further that goes the further the north east Asian economies in particular go with the transition from coal to lower emissions forms, the stronger the market for gas.

We're helped by that. We're helped by the increased focus in nuclear. I agree with the minister that international demand is temporarily put off by the transition or the anxieties following the Fukushima disruption. In China and India, the critical countries, that will lead to a stronger focus on safety, some delays for a while but not a major shift in the program.

And before the Chairman stops me just one last point, we have exceptional resources of a human kind, the professional capacities to make a success of the transition to a low carbon economy which have their origins in our exceptional strengths in resources industries.

It's no accident that the world's largest resources company is a few blocks down the road from here in Lonsdale Street. Thank you.

[Applause]

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